TRAINING MANUAL

Community Development Block Grant Program
Economic Development Allocation

OVER - THE - COUNTER COMPONENT
2004-05

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COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM
ECONOMIC DEVELOPMENT ALLOCATION

OVER-THE-COUNTER COMPONENT
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Community Development Block Grant (CDBG) Program
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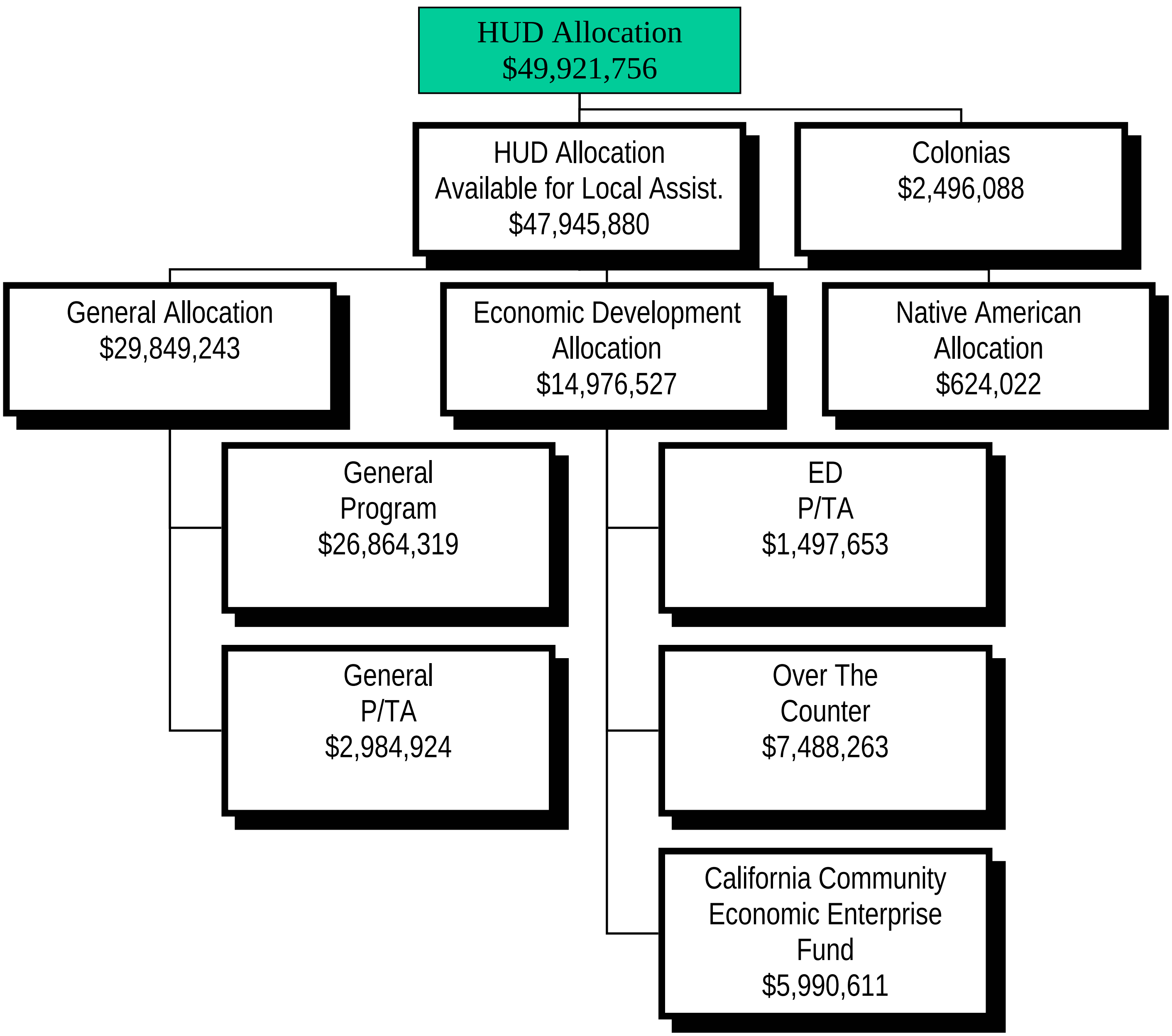

CHAPTER I: PROGRAM BASICS

1. Introduction

With the release of this Training Manual and the corresponding Application and Notice of Funding Availability (NOFA), the Department of Housing and Community Development (Department) is soliciting applications for the Over-The-Counter (OTC) Program Component of the State Community Development Block Grant (CDBG) Program's Economic Development Allocation. This funding component provides eligible jurisdictions with funding commitments for project specific business and development loans or for public infrastructure grants. This Training Manual describes the Over-The-Counter Mechanism in detail, describing eligible uses, CDBG requirements, application procedures, rating and ranking criteria, and implementation issues. **We strongly encourage you to read this manual prior to completing your application**

The CDBG Program is authorized by the Housing and Community Development Act of 1974 as amended,[1] Subpart I of the federal Community Development Block Grant regulations,[2] and by Health and Safety Code Section 50833. State CDBG regulations (Title 25 of the California Code of Regulations, Sections 7050, et seq.), set forth the basic program requirements. The specific regulation governing the Economic Development Allocation is found at Section 7062.1 of the State regulations.

2. Eligible Applicants

The intent of the ED Allocation is to stimulate economic development in small cities and rural counties with high unemployment rates and lagging economies. Eligible jurisdictions are counties with less than 200,000 people residing in the unincorporated area, and cities with less than 50,000 residents. There is one exception: cities under 50,000 population that participate in the federal CDBG Entitlement Program administered by HUD are not eligible for the State CDBG Program. See Appendix A of the Notice of Funding Availability for a current listing of eligible jurisdictions.

Under the OTC component, local governments apply to the Department on behalf of an identified business or development project. *The CDBG grant award is made to the city or county. The Department does not make direct loans or grants to the business owner, developer, or private nonprofit corporation.*

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[1] Title 1 of the Housing and Community Development Act of 1974 as amended. 42 U.S.C. 5301, et seq., Federal Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35).

[2] 24 CFR Part 570, Subpart I.

3. Funding Amounts

For the 2004-05-program year, 30 percent of the State's CDBG allocation is set aside for the Economic Development allocation. **Ten percent (10%)** of this amount is set aside for Planning and Technical Assistance grants. Of the remaining amount, approximately **fifty (50%)** percent has been allocated to fund the OTC component and **forty percent (40%)** is allocated to fund Enterprise Fund programs. (The Enterprise Fund component provides eligible jurisdictions with funding commitments with which they may originate local business loans, make public infrastructure grants, or assist in the development of microenterprises.) Approximately $4.1 million is allocated to the OTC component in 2004-05.

In general, the maximum amount of funding that may be awarded under the ED Allocation is $500,000 annually, not including ED Planning and Technical Assistance grants. Applicants may apply until the $500,000 cap is reached. However, in December of each year, the Director may waive this $500,000 cap. Applicants can then submit additional applications requesting funding in excess of the $500,000 annual ED Allocation cap.

A jurisdiction may request up to $1 million in a single application for a single project if the nature and scope of the project are such that the expenditure of the $500,000 single-year limit would not be sufficient to meet a national objective. The burden of proof is on the applicant to demonstrate why the program cannot be completed in phases. Costs savings alone is not an acceptable justification for awarding a multiyear application. The $1 million commitment would be awarded over a two-year period.

4. Eligible Use of Funds

A. Activity Funds: OTC funds can used in a variety of ways to fill gaps in project financing. Typical eligible uses are:

a. construction loans (business/developer);
b. equipment purchase loans (business/developer);
c. working capital loans (business/developer);
d. land acquisition loans (business/developer);
e. loans for privately owned on-site improvements (business/developer);
f. loans to business start-ups (business);
g. loan guarantees (business/developer)
h. grants for publicly owned off-site improvements (city/county); and
i. grants or loans for small business incubators (city/county).

Other funding activities may also be eligible. Contact your Economic Development Specialist prior to submitting an application for an activity not listed above.

Note: Not all costs are eligible for CDBG purposes. The timing of expenditure of project activity funds can also affect the eligibility of costs for reimbursement. For example, costs incurred prior to the State's execution of a grant agreement are not generally reimbursable with the CDBG funds. Applicants are advised to contact their Economic Development Specialist in advance for confirmation of the allowable uses of funds.

The Department awards funds to a jurisdiction in the form of a grant. The grant is typically converted to a loan to a business owner or developer. Alternatively, the grant may remain in grant form for construction of publicly owned infrastructure improvements which are necessary to accommodate the expansion or retention of a private sector business. Additionally, grants may be passed through to qualified private nonprofit organizations chartered to perform economic development. In all cases, the city or county must show that CDBG funds are needed to achieve project feasibility which has not been met by other public or private sources. The business, developer, or private nonprofit corporation must demonstrate that CDBG funds are needed to provide the necessary assistance to generate public benefit in the form of permanent, full-time (or full-time equivalent) private-sector jobs.

B. Administrative Funds: Administrative costs are all the costs associated with implementing the grant, including progress reports, financial reports, job monitoring reports, labor standards monitoring, environmental review, loan closing, loan servicing, and the CDBG portion of the entity-wide audit.

Historically, ED OTC grants have been managed for between 5 to 7.5 percent of the total grant request. Therefore, in the second stage review, which has a point category for a reasonable administrative budget, maximum points will be given to applications which budget between 5 to 7.5 percent for grant administration (including modest planning proposals). Grantees that wish to forego an administrative budget may do so if a justification has been provided and approved by the Department. Another exception to the recommended 7.5 percent cap for general administration may be made for small grant requests of $135,000 or less. So that small grants are adequately implemented over the 30-month grant term, the Department will consider an administrative budget of up to $10,000 for grants of $135,000 or less.

5. Application Process

A. Pre-applications: Pre-applications incorporating financial information are encouraged to enable the Department to determine the eligibility of the application before the applicant incurs the cost and time to develop an Application. The pre-application form is contained in the Application Package. It is advisable to discuss a pre-application with your Economic Development Specialist at least one month before submitting the application to allow time for identifying any deficiencies in the structure of the application.

B. Open Filing Policy: Applications are accepted on a continuous basis, and may be submitted at any time when the applicant feels all necessary project information is assembled in the application. One original and one copy of the application, and one set of confidential financial information (marked confidential and submitted under separate cover) must be submitted for each proposed project. For infrastructure activity applications, send an original and two copies of the application, with all attachments.

Applications should be addressed or hand delivered to:

Stacy Tyhurst, CDBG Secretary
Economic Development Allocation (CDBG)
Department of Housing and Community Development
2710 Gateway Oaks Drive, North Building, Suite 190
Sacramento, CA 95833

Phone: (916) 263-0485
Website: http://www.hcd.ca.gov/ca/cdbg/

C. Application Review: Applications are reviewed by program staff using a three-stage process:

- **Stage One: Completeness.** The application is reviewed for Completeness and compliance with basic eligibility criteria, e.g., eligible applicant, eligible activity, public benefit, national objective, and use of funds.

- **Stage Two: Program Threshold Criteria.** The application is rated using criteria published in the NOFA measuring economic need, public benefit, local capacity and cost effectiveness. Applicants must receive at least 50 out of a maximum of 80 points

- **Stage Three: Feasibility.** The proposed project is subject to an in-depth analysis applying CDBG Underwriting Guidelines and additional state factors. The project is reviewed again for compliance with Public Benefit and National Objective requirements.

The review process is discussed in detail in Chapter II.

A. Application Approval: Staff recommendations are presented in a staff report to the Economic Development Advisory Committee. A public hearing is scheduled within 45 days of receipt of a complete application.

Committee recommendations are forwarded to the Director of Department for funding decisions. Funding decisions are made within 60 days of receipt of a complete application.

A. PROGRAM BENEFICIARIES:

For an application applying under the national objective of 51% benefit to the TIG, CDBG funds can be used to assist businesses and development projects that create or retain jobs principally for lower-income people. See Appendix 1 for the current HUD income limits.

Where CDBG funds are used to assist a development project with multiple tenants, such as a shopping center or an office building, the applicant must demonstrate that at least 51% of the aggregate jobs created by the entire development will be held by members of the TIG.

Where CDBG funds are used for infrastructure, applicants must include a description of the entire geographic area to be served by the improvements. An application should contain a description of the mechanisms, zoning ordinances, conditions on building permits, etc., that ensure that development projects in the service area will provide at least 51% benefit to TIG persons through jobs and/or affordable dwelling units. Under new federal regulations the monitoring period for enforcing this requirement is one year from the completion of construction, or until the ratio of projected CDBG funds per job reaches $10,000 per job. Program staff will determine whether the application is eligible for funding based on a determination that 51% of the beneficiaries within the area benefiting from the improvements are members of the TIG.

B. ELIGIBILITY UNDER THE OTC COMPONENT OF THE ED ALLOCATION:

2. Eligible OTC Activities That Meet A National Objective

Under the OTC component, eligible cities and counties can propose to use CDBG funds to assist a business through loans, grants, loan guarantees, interest supplements or other forms of support where it is determined that the CDBG assistance is ***appropriate*** to carry out the project. To make an eligibility determination, the application to the OTC component must document the basis for the determination that the CDBG subsidy is appropriate, based upon the documented needs of the business and the amount of public benefit that will result from the project.

The Appropriate Determination

The guidelines and a methodology for making the "Appropriate Determination" are detailed in Chapter VI. This methodology encompasses the HUD guidelines that have been promulgated regarding evaluating projects for CDBG assistance. The CDBG program requires OTC applicants to discuss factors related to this determination in the OTC Application under Item 2., of the "Project Description." The objectives of these guidelines are to ensure:

- that project costs are reasonable;
- that all sources of project financing are committed;
- that CDBG funds are not substituted for non-Federal financial support equity participation and private debt financing are maximized);
- that the project is financially feasible;
- that the return on the owner's equity investment will not be unreasonably high; and
- that CDBG funds are disbursed on a pro rata basis with other financing provided to the project.

Besides these financial review factors, the application must also document that sufficient ***public benefit*** in the form of job creation or job retention will be generated by the CDBG-assisted project. To ensure that the amount of CDBG subsidy is not excessive given the amount of public benefit being generated by the project, the cost of CDBG funds per job created or retained cannot exceed $35,000.

Meeting a National Objective

In addition to the requirement that project information in the application support a determination that the CDBG assistance is appropriate and that the project will generate sufficient public benefit, the local government's application must also document that the activity meets a national objective. Following are synopses of each of the three national objectives.

a) **Benefit to the Targeted Income Group (TIG)**. An activity will be considered to address the objective of benefit to the targeted income group if it meets one of the following criteria:

  1) *At least 51% of the jobs created or retained by an activity must benefit the TIG*. The Targeted Income Group, which includes the "Lowest Targeted Income Group (LTIG)," is based on a county's median income limit adjusted for family size, which is provided

annually by HUD. TIG is 80% and below of the adjusted county median family income. LTIG is 50% and below of the adjusted county median family income.

At the application stage, an activity is deemed to meet this national objective based upon the projected TIG benefit specified in the application (at least 51% of the jobs projected to be created are expected to be filled by members of the TIG). The projected percent of benefit to the TIG should be supported by a discussion of the types of jobs to be created, and the assurance of TIG eligibility should be supported by signed or draft agreements that specify roles and responsibilities related to screening job candidates for CDBG income eligibility.

Ultimately, an activity is deemed to meet this national objective if it is determined that at least 51% of ***all*** jobs that are actually created or retained as a result of the CDBG-assisted project are filled by members of the Targeted Income Group. CDBG program staff conducts the initial review for TIG compliance in the 24th month of the grant term. At that point, if at least 51% of the persons holding jobs that were created or retained as a result of the CDBG-assisted activity are members of the TIG, then the activity is deemed to meet the national objective. If the activity does not meet the 51% threshold requirement, then the grantee and the business have until the end of the grant term to meet the national objective.

For job retention projects, the application provides initial documentation in the form of signed self-certifications that at least 51% of the persons holding jobs being retained as a result of the CDBG-assisted activity are members of the TIG. Monitoring by State CDBG program staff will determine if the income levels of retained, or an employee subsequently hired to replace a retained employee, were adequately documented.

2) *Area benefit activity*. An activity which benefits an area in which at least 51% of the residents are in the targeted income group. To determine the activity benefit area, census tracts may be used, or survey data that is deemed by the Department to be methodologically sound. An activity that serves an area that is not primarily residential in character does not qualify under these criteria.

An example of an area benefit activity is a neighborhood grocery store that serves a defined residential area in which it can be determined that at least 51% of the residents are members of the targeted income group.

3) *Limited clientele activity.* An activity that benefits a limited clientele, of which at least 51% of whom are in the targeted income group. In some instances, there is a presumption that the clientele being served by the activity is presumed to be principally from the targeted income group. Contact your Economic Development Specialist early in the development of your project if you are considering meeting the national objective through a limited clientele activity.

b) **Aid in the prevention or elimination of slums or blight.** An activity is eligible under this national objective if:

(I) The activity will occur in an area, delineated by the applicant, that meets a definition of a slum, blighted, deteriorated or deteriorating area under State or local law;

(ii) Throughout the area there is a substantial number of deteriorated or deteriorating buildings or the public improvements are in a general state of deterioration;

(iii) Documentation is maintained by the applicant on the boundaries of the area and the condition which qualified the area at the time of its designation; and

(iv) The assisted activity addresses one or more of the conditions which contributed to the slum and blighting condition of the area.

This national objective can also be met on a "spot" basis for activities not located in a designated slum or blighted area. Rehabilitation is limited to the extent necessary to eliminate specific conditions detrimental to public health and safety.

c) **Meet a community development need having a particular urgency.** An activity meets this national objective if the applicant certifies that the assisted activity is needed to alleviate existing conditions that pose a serious and immediate threat to the health and welfare of the community. The conditions must be of recent origin (developed or became critical within 18 months preceding the certification by the grantee), the grantee must be unable to finance the activity on its own, and other sources of funding are not available.

CHAPTER II: KEY POLICIES FOR PREPARING APPLICATIONS

1. JOB CREATION PROPOSALS

In job creation proposals, it is required that an applicant demonstrate that CDBG assistance will result in the creation of permanent, full-time (or full-time equivalent) private-sector jobs, principally for the targeted income group. The Employment Projection Form (in the Application For Funding) should document the net projected increase in full-time and full-time equivalent jobs and the number of those jobs that will be filled by members of the TIG. For start-up businesses, job creation estimates should be supported by the projected labor costs contained in the financial projections. Financial projections for existing businesses must also support labor costs associated with the increase in jobs.

Applicants should counsel businesses to be conservative in estimating the number of jobs that will be created since this job creation figure is incorporated in the Grant Agreement as a measure of performance for the grantee. Failure to meet these job creation estimates result in grant monitoring findings and point consequences for future CDBG ED Allocation applications. Failure to meet minimum CDBG public benefit requirements ($35,000/job) will result in repayment of grant funds or program income to the Department.

2. JOB RETENTION PROPOSALS

To qualify as a job retention proposal, the application must make the case that CDBG funds are necessary to keep an existing business operating. There must be evidence in the public record (e.g., a letter from the business to the city or county) of an imminent threat to the business that requires an infusion of public dollars. The application must document that if not for the infusion of the CDBG funds, the jobs would be lost.

If the national objective being met is through benefit to the targeted income group, a survey of current employees must document that at least 51% of the jobs retained with CDBG dollars are held by the targeted income group. However, if the survey cannot support 51% benefit, there are other options to qualify the application as a job retention proposal. For example: based on historical data on job turnover rate, the business can stipulate to a hiring plan over the next few months that will provide new jobs primarily for the targeted income group. Together the number of actual TIG jobs retained, plus the number of projected TIG hires may achieve the 51% eligibility threshold for funding.

A self-certification form may be used to survey the current employees to determine TIG status for the OTC application. If the application is approved, the retained employees must provide income documentation as described below.

3. DIRECT EVIDENCE OF TIG STATUS/INCOME SCREENING

For purposes of meeting the TIG benefit national objective, the salary level of a job is not, in and of itself, evidence that it is held by a targeted income group employee. That is, the CDBG program cannot conclude that an employee is in the targeted income group based on a minimum wage job. It is possible that a minimum wage job, when combined with a spouse's salary or the salary of an adult child living at home, will exceed 80% of the county median income for the employee's family size. If so, the employee is not within the targeted income group. Therefore, for an employee to qualify as belonging to the targeted income group, all sources of family income must be disclosed. The total family income as of the date of hiring or the date of the CDBG application must be at or below 80% of the county median for the employee to qualify for inclusion in the targeted income group.

All employees (100%) for jobs being counted towards the TIG benefit requirements must be income screened to determine TIG status. ***It is the responsibility of the grantee to assure that the job holders are being screened for TIG eligibility and that adequate records are being maintained.*** A grantee may utilize the services of a local Workforce Investment Act (WIA) funded agency to income screen job applicants. The State CDBG program allows jurisdictions to use the WIA funded agency definition of income eligibility when there is an executed contract with the WIA funded agency. (See the Application For Funding for a Model Employment Agreement.) The grantee should also include a non-financial default provision in the loan agreement that specifies that the business will utilize the services of the agency and will provide the grantee with regular (at least semi-annually) reports on number of hires and number of TIG hires.

If a WIA agency does not income screen applicants, the grantee or the business must income screen the employees. In this instance, the grantee or the business may utilize the methodology of the local WIA agency or Section 8 program to determine total family income while using the income limits specified by the Department of Housing and Urban Development which are by county and by family size. (See Appendix 2 for HUD 1995 Income Limits by County.) The grantee should include a non-monetary default provision in the loan agreement that specifies that the business will conduct the income screening according to CDBG requirements, will maintain records that document TIG eligibility, and will provide regular reports to the grantee on the number of hires and number of TIG hires.

Self-Certifications. A self-certification form is one that employees fill out themselves indicating their total family income. To be valid, a self-certification form must be signed and dated by the employee. Self-certification forms may be used for identifying targeted income group eligibility when the employee has no income documentation available.

Note: The CDBG program views self-certification forms as a last resort form of income documentation, to be utilized when other methods income verification are not available. (See the Self-Certification Form in the Application for Funding.)

Current Federal regulations allow the presumption that an employee belongs to the targeted income group if the employee resides in a census track (or block numbering area), which is:

1) part of a Federally designated Empowerment Zone or Enterprise Community; or

2) has a poverty rate of at least 20% as determined by the most recent decennial census information; AND it does not include any portion of a central business district, unless the tract has a poverty rate of at least 30% as determined by the most recent decennial census information; AND it evidences pervasive poverty and general distress if all block groups in the census tract have poverty rates of at least 20%, or the specific activity is located in a block group that has a poverty rate of at least 20%, or upon the written request of HUD to determine that the census tract exhibits other objective signs of general distress (high rates of crime, drug use, homelessness, abandoned housing and deteriorated infrastructure or population loss); or

3) which has at least 70% of its residents who are low or moderate income persons.

Or, if the business is located in any one of the census areas identified in 1 and 2 above, and the job under consideration is to be located within that census tract.

4. FORWARD COMMITMENT OF CDBG FUNDS

The CDBG program may make forward commitments of CDBG grant funds to facilitate the completion of financial structuring and obtaining final commitments from other funding sources. Absent a firm commitment from other project funding sources, the OTC application must include the other funding source's proposed terms and amounts, and a complete copy of the other funding source's loan/grant application package, including all supporting documents.

The conditional commitment period is 90 days. Projects unable to meet the conditions of the OTC commitment within that time frame may lose their CDBG commitment and would then have to re-apply to the program (without priority) for further consideration of the application.

Recognizing that environmental clearance for a construction activity may require preliminary architectural or design engineering (costs sometimes budgeted in the construction line item), the Department will permit drawdown from the construction line item for these services to fulfill the environmental review requirements of the grant. The other construction activity funds may not be drawn down until all special grant conditions have been satisfied.

5. LABOR STANDARDS

OTC grants may be subject to the payment of Federal and State labor standards and provisions. Federal and State prevailing wages will be triggered on the entire project when CDBG funds pay for: 1) new construction or rehabilitation; 2) on-site improvements in support of new construction; and 3) installation of equipment when it becomes integral to the building housing it. Prevailing wage requirements are also in effect for the labor used to install equipment when installation costs are significant relative to the purchase price of the equipment.

Federal prevailing wages will **not** be triggered on the entire project in circumstances where CDBG funds pay for: 1) land acquisition; 2) construction of off-site improvements (only the off-site improvements are subject to prevailing wages); and, 3) purchase or installation of "roll-in" or "plug-in" types of equipment not integral to the structure. It is recommended that an applicant provide a list of equipment with the pre-applications so that the ED program staff can determine the applicability of Federal and State prevailing wages.

6. PERMANENT JOBS

Only permanent jobs directly related to the assisted activity are considered for purposes of determining whether an OTC project will generate the requisite amount of public benefit. A permanent job is defined as a job classification that provides 1,750 hours a year employment for at least two consecutive years. The Department's evaluation of the business' performance regarding the number of permanent new jobs created will occur approximately 24 months after the State signs the grant agreement. For purposes of meeting the CDBG public benefit requirement, all jobs must be created or retained by the end of the grant term, which is typically 30 months.

During the application review, each project will be evaluated to determine whether the proposed timetable for the creation of new permanent jobs is appropriate and consistent with the timing of CDBG assistance being received by the business. This review may result in revisions to the timetable for job creation, the number of jobs, timing for receipt of funds, etc. A job classification will be considered "permanent" if it is tied to the project's annual growth in sales or rents during the prior 24 months.

Full time equivalent jobs (FTE) will be considered toward establishing a final job count. Two part time jobs of at least 875 hours per year each can count as one FTE job.

7. CDBG COST PER JOB

The maximum projected ratio of CDBG dollars for each new or retained job is $35,000 for all projects. The CDBG cost per job is one of five program threshold factors in the second stage of the application review process.

8. LEVERAGE

Leverage equals the total of all private and public funds divided by the total of CDBG funds in the project. The leverage calculation may include documented expenditures for land, buildings and equipment incurred prior to the CDBG award, provided it can be demonstrated these costs were incurred for the proposed CDBG-assisted project no earlier than 90 days prior to the application, and with the intent of applying for the CDBG funds. For public infrastructure projects, other public sources of funds will be calculated into the leverage ratio with private sources of funds. Applicants must document the purpose and date of any pre-application costs proposed as leverage. For public infrastructure projects, other public sources of funds will be calculated into the leverage ratio with private sources of funds.

The strongest applications show at least a 2:1 private leverage ratio to CDBG funds. However, this ratio may be relaxed for start-up businesses, emerging businesses (less than 3 years old), and small business incubators owned by nonprofit or for profit entities. The preferred private leverage ratio of 2:1 may also be relaxed for job retention projects when it can be documented that all private resources have been exhausted. However, all CDBG projects must show that private financing has been maximized.

9. FINANCIAL DOCUMENTATION

Historical business and personal financial information (e.g. audited, CPA reviewed, or certified balance sheets, income and expense statements and tax returns), as well as forecasted profit and loss statements will be required from every business or developer requesting CDBG assistance. Applicants should be aware that financial information may be required from current and potential tenants in a development project, since these businesses will be responsible for actual job creation.

Financial information from the business or developer must indicate the status of income tax, payroll tax, property tax and sales tax. Applications will not be considered for funding if any taxes are delinquent.

The depth of financial information required has been adjusted for a business loan, a developer loan, an infrastructure project and/or a start-up business or small business incubator:

- Start-ups, by definition, will not have historical financial information. Rather, the Department will rely on evidence of a business plan, a marketing analysis, ability to provide an equity injection, and cash flow projections, and evidence of the principal's financial condition..

- Businesses less than 3 years old must provide year-to-date financial information plus a business plan, marketing plan, evidence of the principal's financial condition, etc.

- Developers will have to provide forecasted profit and loss statements which include an internal rate of return analysis.

- Small business incubators will have to provide a feasibility study, an operating budget, a marketing plan to attract appropriate incubator tenants, and a plan for delivering technical assistance to incubator tenants. Additionally, applicants may also be required to provide letters from tentatively committed tenants or proposed lease agreements for committed tenants, and business/financial information on each start-up tenant which will document the financial feasibility of the small business and its ability to create jobs.

10. CONFIDENTIALITY

Business financial statements, tax returns, personal financial information, and other proprietary information can be submitted under separate cover marked "Confidential." This information will be protected from public disclosure to the extent allowable by law. However, applicants should understand that information supplied to the State may have to be made available to the public under the State Public Records Act, unless an exemption under this Act applies to the information supplied, and the applicant affirmatively asserts a valid claim of confidentiality under such exemptions. Applicants can anticipate that financial ratio analyses and cash flow projections will be a standard part of the staff report prepared for the Department's Economic Development Advisory Committee. The staff report is available to the public. Staff will work with the business to the greatest extent possible to protect confidential financial information.

11. UNEMPLOYMENT RATES

The County unemployment rate compared to the State unemployment rate is a program threshold factor in the second stage of the application review process. The specific report is Report 400C, Monthly Labor Force Data for Counties (Revised) published by the Employment Development Department.

Website: http://www.calmis.ca.gov/htmlfile/subject/lftable.htm

12. SUBRECIPIENTS

Jurisdictions can pass grant funds through to certain tax-exempt nonprofit corporations and other entities, which include local development corporations and economic development corporations, which are legally constituted to promote economic development. The Department will evaluate whether or not the project requires the pass-through of funds to the subrecipient and whether the CDBG award shall be in grant or loan form. The latter determination depends on the financial feasibility of the project itself, not on the fact that the project may be owned or managed by a nonprofit corporation. The Department must provide written approval of subrecipient agreements prior to execution or amendment.

13 EVIDENCE OF CITIZEN PARTICIPATION/PUBLIC HEARINGS

State CDBG regulations, Title 25 California Code of Regulation Section 7080, call for citizen participation in the selection of a CDBG eligible project and in the program design and preparation of the application.

Grantees will be required to provide evidence of public notices for a required public hearing on the selection of an eligible CDBG activity, and a subsequent public hearing on the contents of the final application that will be submitted to the State. Failure to include copies of the notices of these two hearings will be grounds for returning the application to the jurisdiction as ineligible for consideration. The application may be resubmitted upon evidence of the required hearings.

Details of a reuse plan for program income must be thoroughly discussed at the public hearings at the local level.

If a resubmitted application has changed in any material way (the site, the developer, the benefiting business, the amount of CDBG funds requested, the scale of the project, the level of TIG benefit, the tenants, the terms of the agreement with the city/county), a new public hearing must be held to allow for maximum citizen participation in the CDBG process.

14 PROGRAM INCOME REUSE PLAN REPORT AND CERTIFICATION

Program Income means gross income earned by the grantee from grant-funded activities. The State CDBG Program considers loan repayments from a CDBG funded grant to be program income, subject to use restrictions and monitoring. The program income can be returned to the State, or retained by the jurisdiction and utilized for CDBG-eligible activities. A copy of the Reuse Plan Report must be submitted with the application, or a Reuse Plan Report must have already been submitted by your jurisdiction and be on file with the CDBG program.

Although program income generated by awards under the ED Allocation is typically identified for ongoing economic development in the community, it is not restricted to this use. Applicants should refer to the CDBG Grant Management Manual, Chapter Two, for a full discussion on program income.

Prior to grant closeout, in the 24th month of the grant agreement, the Department will monitor the grant for performance, including job creation or retention. The evaluation will consist of a comparison of actual job achievement and its timing to original milestone projections, and an overall evaluation of the grantee's administration under the State contract. In the event of non-performance of job creation or retention, the State may require the grantee to repay all, or a portion, of the grant or the program income realized from the grant activity. Thus, a grantee may wish to retain program income until the OTC grant is monitored for job performance at close-out.

15 PERFORMANCE

Because there are limited circumstances under which time extensions may permit grantees additional time beyond the grant termination date to improve performance, evaluations must occur at the end of 24 months for job creation/retention. Grantees are strongly advised to meet with their field representative at the beginning of the grant term to review the budget and milestones for the grant and the responsibilities of all parties.

Upon receiving the State executed contract, grantees should evaluate the accuracy of the original Activity Budget and Schedule submitted in the application. If quarterly time frames presented in the OTC application are no longer accurate for meeting special conditions, expending activity funds, or bringing jobs on line, it is essential for grantees to request written approval of a revised Activity Budget and Schedule.

The Department reserves the right to make determinations regarding the need to amend a grant agreement to extend the term of the grant. Such extensions of the grant agreement will be considered only in the event that there were extraordinary circumstances beyond the control of all parties, such as natural disasters, that prevented satisfactory performance during the 30-month grant period. To justify a time extension, the grantee must present evidence of a plan to achieve the required job creation within the extension period. The plan must address significant changes in local conditions, the marketplace and/or in the management of the business that now put the business in position to meet job goals. However, the grantee's eligibility to apply for additional CDBG funds may be adversely affected during the extension period. A separate determination will be made by CDBG staff regarding the grantee's eligibility to apply for funds.

16 LOAN STRUCTURE

Applicants can structure loan features that provide maximum support for the business in the form of low cost, long term financing for fixed assets or permanent working capital. There are no fees or points associated with a CDBG loan from this component. The rate and term of each loan will be negotiated based upon the needs of the specific project.

A well structured loan agreement should include:

1) provisions for a proportional or equal drawdown of equity funds to debt funds;

2) CDBG loan draws tied to documentation of all required loan security;

3) CDBG draws tied to invoices for equipment or construction milestones and issued as two party checks to borrower and contractor/vendor/supplier;

4) semi-annual financial reports to the city or county;

5) job tracking reports;

6) financial penalties for defaults on job creation;

7) incentives for exceeding job creation goals;

8) permission for periodic on-site visits by the applicant's staff, and

9) a due on sale, refinance or change in majority ownership clause.

The loan agreement must specifically state that the loan is predicated on job creation/job retention, if applicable, and indicate the total number of TIG jobs for which the business is accountable. Substantial failure to meet the goals is cause for declaring the loan in default. Once the grant award is made, the Department must approve loan agreements for consistency with these policies before they are executed and before activity funds are released to the grantee.

In order to protect the jurisdiction as a lender, the Department requires that applications include an extensive discussion of loan closing services to be utilized. Use of a bonded private sector firm that specializes in the handling of escrow transactions is suggested. The firm selected may be the same as that used by other lenders participating in the project. It is important that the firm chosen be a disinterested third party to all loans involved. The cost of this service is eligible for reimbursement from the grant administration budget if the project is funded. This approach is intended to overcome problems with inadequate loan documentation and issues with unsecured collateral prior to the initial disbursement of CDBG loan proceeds.

17 INFRASTRUCTURE AND COMMUNITY FACILITY IMPROVEMENTS

Infrastructure and community facility funds are awarded after a jurisdiction has demonstrated it has explored all alternative sources of funding, including federal funds available from the U.S. Economic Development Administration and Rural Development. The benefiting business or development project must demonstrate substantial financial commitment to the project. The CDBG Program does not fund infrastructure improvements for speculative developments; there must be a committed business or developer. Financial documentation required of a business/developer in an infrastructure proposal, documents the ability of the enterprise to create or retain jobs. It also documents negotiations with the business or developer to make a fair share contribution to the capital costs of the infrastructure improvements. Projects proposing to provide off-site infrastructure assistance will be evaluated to assess the negotiated dollar amount that the business(es) will contribute. Grant assistance must be justified in the application and be consistent with all other project information.

Determining Assessment Area

The assessment area for an infrastructure or community facility project is determined by the projected cost per job of the project. If the projected cost per job is less than $10,000, the assessment area of benefit includes only the initially benefiting business(es). However, if the cost per job is projected to be $10,000 or more, the assessment area of benefit includes the initially benefiting business(es), and any other businesses which locate or expand in the service area of the CDBG-funded public improvement or community facility.

The cost per job data must be tracked until the actual cost per job is less than $10,000 or until one year from the completion of the improvements. If the application indicated that the projected cost per job was less than $10,000, and the actual cost per job is $10,000 or more, the applicant will be required to obtain the job information from the other business(es) locating or expanding in the service area of the CDBG-funded public improvement or community facility until the less than $10,000 per job, or the one year requirement is met. The applicant should also be aware that if the actual cost per job is significantly higher than the projected cost per job, the applicant will be required to develop more accurate job creation/retention techniques for future CDBG ED applications.

The application must include a discussion of how the grantee will obtain and compile this benefit data and how it will ensure that reporting mechanisms are in place to track job creation/retention numbers and overall level of benefit to the TIG in the assessment area.

Fair Share Allocation Plans

It is the intent of the CDBG Program to fund only infrastructure improvements that are necessary for the identified business(es) to go forward. However, infrastructure may be sized for excess capacity so that future users will be able to hook up. In those cases, the Department requires that the jurisdiction identify current beneficiaries of the infrastructure improvement (including the initially benefiting business(es)), determine a fair share payment from each beneficiary for the costs of the improvements based upon a pro-rata portion of the project costs, and negotiate with each beneficiary to receive a fair share payment. The Department will review the results of the negotiation(s) to determine the reasonableness of the outcome. The jurisdiction must also document how fair share payments will be obtained from future users. Fair share payments and hook-up fees are distinct from ongoing operating fees; they are intended to capitalize a fund for CDBG eligible activities in the same manner as the reuse plan for loan repayments. A fair share plan should be included in every application for infrastructure improvements.

Fair share payments collected up front are to be applied to total project costs and should be disbursed into the project prior to the drawdown and full disbursement of CDBG funds. Fair share payments collected after the CDBG grant is funded are considered program income.

18. <u>INITIAL MEETING: GRANT IMPLEMENTATION</u>

As soon as a grantee receives a State executed contract, a meeting should be scheduled by the Grantee to clarify the roles and responsibilities of all parties involved in grant implementation. The CDBG program's Economic Development Specialist will attempt to attend the meeting and review the project's budget and milestones, reporting requirements, labor standards requirements, etc., with City/County staff, consultants, job training agency representatives, business representatives, et al. This initial meeting is designed to answer questions on grant implementation so that prompt and satisfactory performance is assured.

19. <u>RECORDKEEPING</u>

After an ED Allocation grant has closed out, grantees are required to keep files and records (including documentation on job creation/retention) for three years.

20. <u>SUMMARY</u>

It is important to note that every CDBG-assisted activity must be CDBG eligible, meet a national objective, and provide public benefit. For projects that meet the national objective of benefit to the targeted income group, 51% of the <u>actual</u> jobs must be held by targeted income group employees. Failure to provide evidence of this basic eligibility threshold may be cause for repaying the entire grant amount and/or returning any program income to the State.

The grantee is ultimately liable for repayment of the grant to the State if there is substantial failure to create jobs. Therefore, loan agreements, development and disposition agreements, owner participation agreements, etc., should address respective responsibilities of the grantee and the benefiting business in the event there is a failure to create jobs or if repayment of grant funds to the State is required. Conversely, grantees may want to build incentives associated with local requirements into their loan agreements and developer and disposition agreements, if job creation exceeds the original goals.

In the event of an ineligible use of funds or failure to meet a CDBG program national objective, the Department will evaluate the grantee's actions and timeliness of steps taken to protect and/or recover the CDBG funds.

CHAPTER III: APPLICATION REVIEW SCHEDULE

A. OPEN FILING SCHEDULE:

Applications are accepted on a continuous basis. The entire application review period from the date that CDBG staff advises the applicant that the application is complete to the Director's decision is approximately 60 days. Advisory Committee meeting dates are coordinated with the review period for each group of applications.

Complete Application Date	Economic Development Advisory Committee Meeting	Decision by the Director
Day 1	Day 45	Day 60

Applications may either be hand delivered to the Department or mailed. One original and one copy of the complete application and one set of financial information, marked confidential and mailed under separate cover, must be submitted to the Department. For infrastructure applications, submit one original and two copies of the complete application along with the financial information.

B. APPLICATION REVIEW:

Each application must be complete; it must include all required State forms and financial information in sufficient detail that the Department can apply the points and rating factors described in the Stage 2, Program Threshold Criteria.. Stage 2 of the review process utilizes objective data to evaluate whether the application sufficiently promotes CDBG program objectives. The application must receive at least 50 out of 80 points for the quantitative factors described below. Applications that meet these criteria will be notified in an acceptance letter that they will receive a funding decisions from the Department within 60 days. Third, it must demonstrate satisfactory fulfillment of nine program design criteria described below.

1. Three Stage Review

Once the final application has been submitted or re-submitted, a formal three stage application review process begins. Following is a description of each of these stages.

a. *Stage 1: Completeness*

In order to be considered complete, the application shall contain sufficient information for the Department to apply the points and rating factors listed in Stage 2. The first review stage determines the completeness of the proposal based on an inventory of complete State and financial forms which provide sufficient information for a substantive review of the application.

b. *Stage 2: Program Threshold Criteria*

Regulations specify the following factors and points are used as threshold criteria to evaluate whether the application merits review. The second review stage is an objective assessment of the application using five factors and a point score system. A minimum of 50 of the available 80 points must be achieved for the application to remain eligible for review under the third stage. The five factors under the second review stage are:

Factor		**Maximum # of Points**
(1)	Percent of county-wide unemployment relative to the Statewide average	25
(2)	Ratio of CDBG funds per job-maximum of $35,000 per job created or retained; or Ratio of CDBG funds for goods/services provided-maximum of $350 per TIG served	15
(3)	Ratio of private and public funds to CDBG funds	15
(4)	Quality of applicant's past performance of CDBG ED grants	15
(5)	Percent of funds allocated to applicants general administrative costs	10
	TOTAL POINTS	80

If the first review stage determines the application is incomplete, or the second review stage determines the application (new or re-submitted) fails to achieve 50 points, the application will be returned to the jurisdiction with a letter describing the deficiencies which precluded further review. However, the applicant is encouraged to reapply when the deficiencies have been corrected.

c. *Stage 3: Feasibility*

Underwriting criteria will be used in the analysis of the project. Detailed descriptions of these criteria are found in Chapter VI. Narrative descriptions are required each of the criteria. The underwriting criteria are intended to ensure the following::

1) project costs are reasonable;
2) project funding sources are committed;
3) CDBG funds are not being substituted for other available funds;
4) project is financially feasibility;
5) return on owner's equity is not unreasonable;
6) funds are disbursed on a pro rata basis with other financing committed to the project; and
7) projected public benefit is reasonable.

2. <u>Interviews</u>

If the application has been successful under the first and second review stages, the Department will notify and may schedule an interview with the applicant and the benefiting business for the purpose of clarifying any information. If necessary, Department staff may make a special request for additional information.

3. <u>Staff Reports, Recommendations and Funding Decisions</u>

Applications that complete the three stage review process will be summarized in a staff report which is presented to the Economic Development Advisory Committee at a public meeting, held approximately six weeks after the applicant receives notification of a complete application. Staff reports summarize the proposal, and recommend approval or denial of funding. (Staff reports represent the opinion of the Department's program staff, not the final decision of the Department.) Copies of reports are mailed to the applicant and the benefiting business approximately five days prior to the meeting at which the project is discussed. Copies are also available to other interested members of the public.

The ED Advisory Committee reviews the report and either accepts, rejects, or modifies the staff recommendation. The Committee then votes on a recommendation for approval or denial to the Director of the Department, who has final discretionary authority.

C. ADVISORY COMMITTEE PROCEDURES:

The members of the Economic Development Advisory Committee, appointed by the Director of the Department (HCD), are State administrators and members of the public with expertise in community and economic development. After the staff summary of the proposal, public testimony may be solicited by the Chair of the Committee, at which time the applicant and the principal(s) are given the opportunity to respond to any questions. A representative of the business seeking assistance should attend the meeting and be prepared to answer questions regarding the project.

CHAPTER IV: STAGE ONE

REVIEW FOR COMPLETENESS

In order to be considered complete, the application shall contain sufficient information for the Department to apply the point threshold criteria listed in Stage 2. If any of the following information is absent, the Department will return the application to the applicant and will include a description of the missing components and suggestions for strengthening the proposal. Applicants should use the checklists contained in the Application For Funding to ensure they have included all the required information.

A. <u>DOCUMENTING FINANCIAL FEASIBILITY</u>

The following is a discussion of the business financial information required to be submitted with the application:

1. Historical business financial statements (prior 3 years of business balance sheets and income statements, including explanatory notes). Statements can be audited, CPA reviewed, or certified by the chief financial officer of the business.

2. Current business balance sheet and profit and loss statement (prepared within 60 days of the application filing date). The statements should be signed, dated and certified by the chief financial officer of the business as a correct representation of the business' current financial status.

3. Monthly cash flow projections are required for 2 years for all businesses and for tenants of development projects. Thereafter, annual profit and loss projections should be provided for years 3 through 5 for an existing business and for a development project. Projections must be accompanied by explanatory notes and assumptions. Projections should be prepared showing the project **with** and **without** CDBG funds and should indicate by quarter when jobs are predicted to come on-line. Developer projections should also include an internal rate of return analysis based on sale or refinance in the 5th year or earlier if that is the intent. Business projections should include a cash-on-cash rate of return analysis after 5 years. If the funding request is for working capital, the applicant should provide a permanent working capital analysis based on the historical operating cycle of the business.

4. Complete copies of the federal business tax returns (tax returns should be for the last 3 years, including the latest year).

5. Current business debt schedule reflecting the debt as shown on the current balance sheet requested above. And, a debt schedule reflecting the CDBG loan, and all other new debt associated with the project.

6. Start-ups, defined as businesses with no operating history, are expected to provide a business plan, a resume of the principal(s), personal balance sheet and tax information for the principal(s) and any partner with 20% or more ownership, market information, monthly cash flow projections for 2 years (with and without CDBG), and thereafter annual projected profit and loss statements for years 3 through 5. A statement and evidence of the ability to provide an equity infusion must be provided.

7. Emerging businesses, defined as operating businesses less than 3 years old, or cottage industries operating for 3 or more years in a home setting, must provide a business plan, business tax returns, financial statements for every year of operation, resumes of the principals, personal financial and tax information for the principals, and monthly cash flow projections for 2 years (with and without CDBG) and annual profit and loss for years 3 through 5.

8. Small business incubators provide small sized commercial or manufacturing space, lower end of market rents, pooled administrative services, free or low cost technical assistance to qualifying tenants. An application for a business incubator must provide financial information on the incubator operation, as well as on prospective tenants. Letters of intent, if available, should be submitted with the application. In addition, financial information may be required on prospective tenants to determine the tenant's financial feasibility and ability to generate jobs.

   The CDBG-funded real property should remain in use as a small business incubator from the date CDBG funds are first spent for the property until five years after closeout of the CDBG grant, unless the grantee complies with the regulatory requirements pertaining to the change in the use of real property.

B. PUBLIC INFRASTRUCTURE IMPROVEMENTS:

When a city or county requests funding for public infrastructure improvements, the applicant must demonstrate that:

1) CDBG funds are necessary for the project to go forward because all other alternatives have been explored and found infeasible or inappropriate;

2) the proposed business expansion or development project is financially feasible; and

3) the immediately benefiting business and future users in the geographic area of benefit will meet a national objective and provide public benefit in the form of jobs. The most common national objective for infrastructure projects will be to provide benefit principally for the TIG.

A complete infrastructure application must include a discussion of all alternative public and private sources of funds and why they were not available for this project as well as the following:

- A description of the physical facilities required to correct the problem and design criteria (these can also be effectively presented in a table). If appropriate, alternative solutions considered should be mentioned, as well as any cost effectiveness analysis made in arriving at the preferred solution.

- A detailed cost estimate prepared by a qualified engineer should be furnished that shows quantities, unit costs, descriptions and extensions, and back-up data to document all costs.

- If infrastructure projects provide excess capacity beyond what is required for the businesses being assisted, the applicant must establish a geographic service area, and describe how the build out will meet a national objective, and provide the public benefit in the form of jobs. The grantee's monitoring responsibility for this requirement lasts for one year after construction is completed or until the cost per job created/retained is $10,000 or less.

When public improvements are designed to meet the needs of the identified business or a development project (where tenants are committed), the applicant must negotiate with the business or developer for a fair share payment of the project costs. An explanation must be included as to how this cost was determined to be an equitable contribution. ED staff will evaluate the reasonableness of the negotiation results.

Applications should incorporate a thorough discussion of the business' or developer's ability to repay the CDBG funds being used to install the infrastructure. In cases where applicant states that the business or developer cannot afford the cost of full repayment, the application must justify the request that the funds be provided in the form of a grant. The Department will evaluate the proposed terms under the appropriateness of terms criterion of the third stage of the review process.

C. PUBLIC BENEFIT:

For all projects, the applicant is responsible for achieving a minimum level of public benefit from the expenditure of CDBG funds. Public benefit standards for activities in the aggregate must either:

Create or retain at least one full time equivalent, permanent job per $35,000 of CDBG funds used; or

Provide goods or services to residents of an area such that the number of TIG persons residing in the area served by the assisted businesses amounts to at least one TIG person per $350 of CDBG funds used.

In all cases where public benefit is met through job creation, the jobs created and retained must be documented to ensure that the CDBG public benefit requirement is being met. In addition, for those projects meeting the national objective of benefit to the targeted income group, a screening system must be in place to determine TIG benefit. The specific form explicitly documenting job creation/retention is the Employment Projection form found in the Application For Funding. The contents of the completed form must be consistent with the milestones for job creation contained in the Activity and Budget Schedule Form. The Department will evaluate the timing of job creation in relation to the receipt of CDBG funds and overall project implementation.

For Projects meeting the national objective of benefit to the targeted income group:

1. For job creation projects, the application must indicate whether the business intends to develop an internal procedure for verifying income eligibility for future job applicants or work with a qualified job screening/training agency such as a WIA grantee or sub-grantee.

2. For job retention projects, a survey of current employees is essential to document that at least 51% of the existing employees have current family incomes that qualify them as members of the TIG. If 51% benefit cannot be demonstrated at the time of application, the business must structure a hiring plan based on historical hiring trends that stipulates that when job openings become available, they will be filled with TIG persons who either have the required skills, or who can be trained for the job. The plan must document the historic job turnover rate as evidence that the business can absorb new TIG employees within 24 months from the date the State signs the grant. A self-certification form is to be used to conduct the survey. (See the Application For Funding for samples of self certification forms in English and Spanish.)

3. For development projects with multiple tenants, leases should reflect the tenants' share of the responsibility for 51% job creation for the TIG. It is also prudent for developers to establish sanctions within the lease in the event that the tenant business does not perform regarding job creation or does not cooperate with the job documentation process imposed by the CDBG grant.

For Projects meeting the national objective of eliminating slums and blight or meeting an urgent need, specific federal requirements must be addressed. Please contact your State CDBG Representative for guidance.

CHAPTER V: STAGE TWO

PROGRAM THRESHOLD CRITERIA
Maximum Points: 80

A. <u>FACTOR #1: PERCENT OF UNEMPLOYMENT RELATIVE TO THE STATEWIDE AVERAGE</u>

To determine unemployment point scores, the Department will use the unemployment information most advantageous to the applicant, using data published by the State Employment Development Department (EDD), use "Counties (Report 400C);

http://www.calmis.ca.gov/htmlfile/subject/lftable.htm

The Department will use either the most recent county-wide revised <u>monthly</u> rate compared to the State's monthly unemployment rate, or annual data for the county and State regardless of whether the project is located in an incorporated or unincorporated area. Applicants are advised to contact the Department for the most current data prior to submitting an application. A maximum of 25 points is available in this category. This calculation is performed each time a project is considered for funding. The point scoring is as follows:

1.	More than two percentage points below the statewide average.	0 points
2.	Below the statewide average, but within two percentage point of the Statewide average.	10 points
3.	Equal to or up to 125% of the statewide average.	15 points
4.	Above 125% and within 150% of the statewide average.	20 points
5.	Above 150% of the statewide average	25 points

B. <u>FACTOR #2: RATIO OF CDBG FUNDS PER PUBLIC BENEFIT</u>:

This factor will be used to determine the cost effectiveness of the proposal. The Department uses a single cost per job or goods/services per TIG standard for this factor. Infrastructure and community facility projects as well as business loans all have the same cost per job standard. A maximum of 15 points is available in this category.

The CDBG cost per job created or retained for all projects is between:

$30,000 and $35,000	5 points
$25,000 and $29,999	10 points

Less than \$25,000	15 points

C. <u>FACTOR #3: RATIO OF PRIVATE AND PUBLIC FUNDS TO CDBG FUNDS</u>:

All CDBG assisted projects must maximize the utilization of available private dollars from equity and/or debt. Proposals demonstrating a ratio of at least two private or other public dollars to every CDBG dollar (2:1) will receive 15 points, the highest number available in this category. Projects with ratios of less than 2:1 are still eligible but will receive fewer points. Job retention projects must demonstrate private leverage, but consideration will be given to less than a 2:1 ratio if it can be demonstrated that personal and business assets are depleted. Consideration will be given to less than a 2:1 ratio for start-ups, emerging businesses and business incubators. These situations will be evaluated on a case-by-case basis. Start-ups must provide evidence of an equity injection.

Where projects will be funded internally, a letter of commitment identifying the source of funds must be submitted from an official with authority to make the commitment. Where a private lender is participating, a letter of commitment or a letter of intent that contains proposed loan amount, terms, etc. must be provided in the application for the application to be considered complete. (Note: CDBG will make a forward commitment in advance of other funding source(s) final commitment(s). In this instance, the application should include a letter from the proposed funding source citing the probable funding terms. Points for leverage will be awarded based upon the proposed funding.)

Expenditures made in advance of the CDBG award are <u>not</u> included in leverage calculations unless the application contains documentation that the expenditure was made within 90 days prior to the filing date and that the expenditures are directly related to the proposed CDBG-assisted project.

Land previously acquired by the private entity is counted toward leverage only in projects involving new construction. The contribution will be the equity interest in such land valued at cost or market value, provided the market value is substantiated by an appraisal or sales agreement that is acceptable to the Department. None of the CDBG loan proceeds may be used for reimbursement of the land cost.

A maximum of 15 points is available in this category, assigned as follows:

1.	Less than 1:1 without justification	0 points
2.	Less than 1:1 with justification	5 points
3.	At least 1:1 but less than 2:1	10 points
4.	2:1 and above	15 points
5.	Job retention where personal, business and	Up to 15 points

bank resources have been exhausted.

D. **FACTOR #4: QUALITY OF APPLICANT'S PAST PERFORMANCE OF CDBG ED GRANTS:**

An applicant's past performance on CDBG ED grants is an application review factor. Experience shows that the grantee's commitment and ability to manage a prior grant is directly related to the success of the proposed project. Department staff will review the grantee's milestones and expenditures on prior ED grants to determine a point score. Problems will be assessed and categorized as major, moderate, or minor. The 15 points available in this category are assigned as follows:

1. Major performance problems: 0 point
   - non-submittal of a GPR
   - non-submittal of three or more semi-annual PARs
   - unresolved major monitoring or audit finding

2. Moderate Performance problems: 5 points
   - non-submittal of two semi-annual PARs
   - achieving less than 25% of expenditures shown on milestone projections
   - unresolved minor monitoring or audit finding

3. Minor performance problems: 10 points
   - achievement of less than 50% of expenditures shown on milestone projections
   - failure to clear grant special conditions by deadline
   - no unresolved monitoring findings or audit findings

4. No reporting, expenditure, monitoring or audit findings, **OR** Applicant is applying to the CDBG ED Allocation for the first time 15 points

E. **FACTOR #5: PERCENTAGE OF FUNDS ALLOCATED TO APPLICANT'S GENERAL ADMINISTRATION COSTS:**

Efficiently run programs will receive the most points under this category. Usually, programs can be administered for 5 - 7.5% of the total funds requested. The exception to this standard is for small sized grant requests of $135,000 or less. For small grants, the Department may approve up to $10,000 for grant administration, based on a line item budget submitted for approval. Applicants that wish to forgo an administrative budget entirely must provide a justification for a waiver of the administrative budget, based on demonstrable management capacity. The Department reserves the right to reject the waiver. There are 10 points available in this category.

1. Less than 5% or unjustified greater than 7.5% 0 points

2.	Less than 5% and justified or entirely waived and justified	10 points
3.	Between 5 - 7.5% of total grant	10 points
4.	Up to $10,000 for a grant of $135,000 or less upon Department approval of a line item budget	10 points

CHAPTER VI: STAGE THREE

FEASIBILITY

A. GUIDELINES AND OBJECTIVES FOR EVALUATING A CDBG ECONOMIC DEVELOPMENT PROJECT

Complete applications which have achieved a minimum of 50 points shall be reviewed for CDBG eligibility and project feasibility. HUD requires that the state or local government conduct basic financial underwriting prior to the provision of CDBG financial assistance to a business. HUD has developed guidelines that are designed to provide grantees with a framework for financially underwriting and selecting CDBG-assisted economic development projects which are financially viable and will make the most effective use of the CDBG funds. The State CDBG program requires that these HUD underwriting guidelines be utilized to determine whether a proposed CDBG subsidy is ***appropriate*** to assist a business expansion or retention project. In addition, the project must be reviewed to determine that a minimum level of ***public benefit*** will be achieved from the expenditure of the CDBG funds in support of the project. Applications must achieve an overall level of compliance with the seven underwriting criteria for a positive staff recommendation. Results of the third stage review will appear in the staff report presented to the Economic Development Advisory Committee.

The underwriting guidelines recognize that different levels of review are appropriate to take into account differences in the size and scope of a proposed project, and in the case of a microenterprise or other small business to take into account the differences in the capacity and level of sophistication among businesses of differing sizes.

The objectives of the underwriting guidelines are to ensure:

(1) that project costs are reasonable;
(2) that all sources of project financing are committed;
(3) that to the extent practicable, CDBG funds are not substituted for non-Federal financial support;
(4) that the project is financially feasible;
(5) that to the extent practicable, the return on the owner's equity investment will not be unreasonably high; and
(6) that to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project.
(7) projected public benefit is reasonable

Project Costs are Reasonable. Reviewing costs for reasonableness is important. It will help avoid providing either too much or too little CDBG assistance for the proposed project. Therefore, it is suggested that the grantee obtain a breakdown of all project costs and that each cost element making up the project be reviewed for reasonableness. The amount of time and resources expended evaluating the reasonableness of a cost element should be commensurate with its cost.

For example, it would be appropriate for an experienced reviewer looking at a cost element of less than $10,000 to judge the reasonableness of that cost based upon his or her knowledge and common sense. For a cost element in excess of $10,000, it would be more appropriate for the reviewer to compare the cost element with a third - party, fair - market price quotation for that cost element. Third - party price quotations may also be used by a reviewer to help determine the reasonableness of cost elements below $10,000 when the reviewer evaluates projects infrequently or if the reviewer is less experienced in cost estimations. If a reviewer does not use third - party price quotations to verify cost elements, then the reviewer would need to conduct a cost analysis using appropriate cost estimating manuals or services.

Particular attention should be paid to any cost element of the project that will be carried out through a non - arms - length transaction. A non - arms - length transaction can occur when the business entity receiving the CDBG assistance procures goods or services or acquires property from itself or from another party with whom there is a financial interest or family relationship. If abused, non - arms - length transactions misrepresent the true cost of the project.

Commitment of All Sources of Project Financing. A review of all proposed sources of funding for a project should be conducted to evaluate whether the project is financially feasible given the availability and commitment of other proposed funding sources. This review is necessary to ensure that time and effort is not wasted on assessing a proposal that is not able to proceed.

To the extent practicable, prior to the commitment of CDBG funds to the project, the project review should verify that: sufficient sources of funds have been identified to finance the project; all participating parties providing those funds have affirmed their intention to make the funds available; and the participating parties have the financial capacity to provide the funds.

Private Lender Commitment. The best evidence of private lender commitment is a letter on the institution's letterhead describing the bank's commitment to the project. The Department may make forward commitments of CDBG funds that are conditional upon receiving final lender commitments within 90 days of the commitment letter. In order to fully evaluate the financial feasibility of projects, uncommitted lenders must provide adequate information on the following factors for the application to be considered complete and to permit analysis by staff:

a. Amount and Term of Loan. The letter should state the amount of the loan being provided for the specific activity to be undertaken and the proposed rate and term.

b. <u>Type of Loan</u>. The lender should include a statement about the type of loan the lending institution is making: interim, construction or permanent.

c. <u>Terms and Conditions</u>. The lending institution should describe the terms and conditions for making the loan, including collateral, evidence of acceptable financial ratios, applicable points and loan fees, any special provisions or covenants, etc.

d. <u>Contingency</u>. A statement that the loan will be made contingent upon an award of the CDBG funds is acceptable.

<u>Public Agency Commitment</u>. The CDBG Program often works in conjunction with other public funding agencies such as the U.S. Small Business Administration, U.S. Economic Development Administration, or Rural Development prior to application. Applicants are encouraged to obtain the firmest possible commitment prior to application from these entities when several funding sources are proposed.

<u>Avoid Substitution of CDBG Funds for Non-federal Financial Support.</u> The proposed CDBG economic development project should be reviewed to ensure that, to the extent practicable, CDBG funds will not be used to substantially reduce the amount of non - Federal financial support for the activity. This will help the grantee to make the most efficient use of its CDBG funds for economic development.

To reach this determination, the reviewer should conduct a financial underwriting analysis of the project, including reviews of appropriate projections of revenues, expenses, debt service and returns on equity investments in the project. The extent of this review should be appropriate for the size and complexity of the project and should use industry standards for similar projects, taking into account the unique factors of the project such as risk and location.

Because of the high cost of underwriting and processing loans, many private financial lenders may not finance commercial projects that are less than $100,000. A reviewer should familiarize themselves with the lending practices of the financial institutions in the community. If the project's total cost is one that would normally fall within the range that financial institutions participate, then the project review should determine the following:

A. Private debt financing--whether or not the participating business (or other entity having an equity interest) has applied for private debt financing from a commercial lending institution and whether that institution has completed all of its financial underwriting and loan approval actions resulting in either a firm commitment of its funds or a decision not to participate in the project; and

B. Equity participation--whether or not the degree of equity participation is reasonable given general industry standards for rates of return on equity for similar projects with similar risks and given the financial capacity of the entrepreneur(s) to make additional financial investments.

If the project involves providing assistance to a microenterprise owned by a low- or moderate-income person(s) (Targeted Income Group person), then the reviewer might only need to determine that non-Federal sources of financing are not available (at terms appropriate for such financing) in the community to serve the low- or moderate -income entrepreneur.

Financial Feasibility of the Project. The public benefit a grantee expects to derive from the CDBG assisted project (a separate eligibility requirement) will not materialize if the project is not financially feasible. To determine if there is a reasonable chance for the project's success, the grantee should evaluate the financial viability of the project. A project would be considered financially viable if all of the assumptions about the project's market share, sales levels, growth potential, projections of revenue, project expenses and debt service (including repayment of the CDBG assistance if appropriate) were determined to be realistic and met the project's break - even point (which is generally the point at which all revenues are equal to all expenses). Generally speaking, an economic development project that does not reach this break - even point over time is not financially feasible. The following should be noted in this regard:

A. Some projects make provisions for a negative cash flow in the early years of the project while space is being leased up or sales volume built up, and the project's projections should take these factors into account and provide sources of financing for such negative cash flow; and

B. It is expected that a financially viable project will also project sufficient revenues to provide a reasonable return on equity investment. The reviewer should carefully examine any project that is not economically able to provide a reasonable return on equity investment. Under such circumstances, a business may be overstating its real equity investment (actual costs of the project may be overstated as well), or it may be overstating some of the project's operating expenses in the expectation that the difference will be taken out as profits, or the business may be overly pessimistic in its market share and revenue projections and has downplayed its profits.

The basic analysis to determine financial feasibility examines both the project's general chances for success along with the relationship of the sources of funds to the proposed uses of funds. Five years projected cash flow must cover projected operating expenses and new debt service. Additionally, staff will perform a permanent working capital analysis to see whether the business will generate enough cash to sustain its operating cycle.

There should be a uses of funds analysis that includes both the hard and soft costs associated with the project. Hard costs include land purchase, building construction, and equipment purchase; soft costs are appraisal fees, construction points and interest, architectural services, assessments and permit fees, etc. paid to a third party outside the benefiting business. Costs should be documented by independent third party appraisers, general contractors, equipment vendors, etc.

A review of the business' debt-to-equity ratio as well as other quality indicators will be used in determining the credit worthiness of the borrower.

Applicants are advised to make a careful determination on the eligibility of costs for CDBG as part of the financial feasibility component of the application. Ineligible costs typically fall into one of two categories. The first is a direct payment of any kind to the principal(s) of a benefiting business. An example is the direct payment of a leasing fee to the project's developer with CDBG funds. A second category of ineligible cost is the payment to a subsidiary or other entities owned or controlled by the benefiting business. A third example is a cost incurred or paid prior to submitting the application to the Department. As a general rule, cost should not be incurred prior to the signing of the Standard Agreement.

In the case of a loan to a business or developer or an infrastructure project requiring repayment, the applicant must demonstrate the overall feasibility of the proposed project and the resulting ability of the business or developer to repay all loans. Infrastructure projects should include a financial review to determine the viability of the business or development benefiting from the improvements, and the project's ability to create or retain jobs.

In addition to the financial underwriting reviews, the reviewer should evaluate the experience and capacity of the assisted business owners to manage an assisted business in a manner that will achieve the projections. Based upon its analysis of these factors, the reviewer should identify those elements, if any, that pose the greatest risks contributing to the project's lack of financial feasibility.

Determination of "Gap": Business/Developer Need. For infrastructure projects, business loans or developer loans, the applicant must be able to demonstrate through a review of financial information that either the unavailability of conventional financing, or the cost of conventional financing, has kept an otherwise viable project from going forward. The application must identify the type of financing gap which exists. Types of financing gaps explanations include:

- Lack of Total Project Funding. The "gap" argument is made when documentation shows that even with a combination of private lender, equity funds, and other public funds, project financing is still incomplete. The reasons why additional private lender funds cannot be obtained must be explained (e.g., if there is collateral risk, location risk, insufficient equity, poor financial ratios, etc.) Evidence that a bank will not provide sufficient financing (a bank turn down letter) is required. It must be demonstrated that other public and private financing options, including additional equity, have been fully utilized whenever possible. The applicant should list these potential funding sources and discuss why alternatives are not available or appropriate.

- Inability to Service Debt with Conventional Financing. The application must demonstrate that even though private financing is available, the cost of the funds is prohibitive, and CDBG funds are needed to reduce debt service.

- Insufficient Rate of Return. The application must document why CDBG funds are necessary to generate a sufficient rate of return to the principals, given other investment options. A financial analysis should describe the rate of return with and without CDBG funds and compare the desired rate of return to industry averages. Applicants should keep in mind that Department staff uses a rate of return that is at the low end of industry averages when assessing this factor.

- Lease Rates. State CDBG financing may be needed to write down a developer's financing so that the project can offer affordable lease rates to tenants. In this case, documentation from the developer should show that conventional financing results in higher-than-market rate rents, and would discourage tenants. The developer should document market rents for comparable space in the area and demonstrate that CDBG funds are necessary to make the project competitive.

SUMMARY: A well documented "gap" argument is essential to the Department's determination that CDBG funds are necessary for the project to go forward. Every application for grant funds to provide a loan to a business or developer must meet the appropriate test, i.e., that the provision of CDBG funding does not provide undue enrichment to the business principal and that the CDBG injection will result in an appropriate level of public benefit in the form of jobs.

Appropriateness of Terms.

This factor provides for a review of the appropriateness of the terms and conditions applied to the CDBG funds in conjunction with the terms and conditions of all other funding sources. The timing of job creation for TIG persons is an additional consideration under this factor. Time frames for TIG job creation should be reasonable in relationship to the business' receipt of CDBG assistance. The applicant should discuss the assumptions used for the CDBG rate and term proposed in the application and job creation milestones.

Collateral value of real estate should be substantiated by an appraisal less than six months old. Collateral in the form of a personal guarantee should be substantiated by a personal financial statement.

Because CDBG funds are considered gap, or incremental financing, it is acceptable for applicants to assume the Department will accept greater risk than private lenders as well as flexibility on interest rate, longer term, or subordinated collateral position. However, applicants should not propose unreasonable risks. The term of a loan, for example, should not exceed the depreciable life of the asset or the term of the lease.

Market Feasibility.

Market feasibility must be evidenced by a business plan that contains a market analysis and a marketing plan for the new product or service.

A market analysis is required if an existing business has a new product or service, or is a start-up. Real estate developments require an "absorption" study to substantiate the need for additional commercial or manufacturing space as well as the impact on existing businesses, particularly shopping center projects. Small business incubators require a market feasibility study that indicates that home based businesses, new manufacturing and service businesses do not have access to adequate space at an affordable rate and that they require the proposed type of incubator space to grow. Net job creation is an important additional consideration in evaluating market feasibility of projects.

Return on Equity Investment. To the extent practicable, the CDBG assisted activity should not provide more than a reasonable return on investment to the owner of the assisted activity. This will help ensure that the grantee is able to maximize the use of its CDBG funds for its economic development objectives. However, care should also be taken to avoid the situation where the owner is likely to receive too small a return on his/her investment, so that his/her motivation remains high to pursue the business with vigor. The amount, type and terms of the CDBG assistance should be adjusted to allow the owner a reasonable return on his/her investment given industry rates of return for that investment, local conditions and the risk of the project.

All projects will be expected to show a private equity injection. Although there is no regulatory minimum, it is standard practice to demonstrate an equity injection of at least 10% of total project costs. When equity funds are being injected into the project, a commitment letter must include an identified/committed source of funds to be provided by the principal(s) supported by independent documentation that the funds are available for injection at the time they are required.

Disbursement of CDBG Funds on a Pro Rata Basis. To the extent practicable, CDBG funds used to finance economic development activities should be disbursed on a pro rata basis with other funding sources. Grantees should be guided by the principle of not placing CDBG funds at significantly greater risk than non-CDBG funds. This will help avoid the situation where it is learned that a problem has developed that will block the completion of the project, even though all or most of the CDBG funds going in to the project have already been expended. When this happens, a grantee may be put in a position of having to provide additional financing to complete the project or watch the potential loss of its funds if the project is not able to be completed. When the grantee determines that it is not practicable to disburse CDBG funds on a pro rata basis, the grantee should consider taking other steps to safeguard CDBG funds in the event of a default, such as insisting on securitizing assets of the project.

Standards for Evaluating Public Benefit. Besides reviewing a project under these underwriting factors, the project must be reviewed to determine that at least a minimum level of public benefit is obtained from the expenditure of the CDBG funds. The minimum standards for each type of public benefit are as follows:

A. The project must lead to the creation or retention of at least one full-time equivalent job per $35,000 of CDBG funds used; or

B. Provide goods or services to residents of an area, such that the number of Targeted Income Group persons residing in the areas served by the assisted business amounts to at least one Targeted Income Group person per $350 of CDBG funds used.

The public benefit criterion provides for a review of the business' proposal to recruit, hire, train, and promote TIG persons. Job applicants for CDBG funded projects must be screened for income; **all** job placements committed to in the application must be verified. The application must describe the method by which these income verifications will occur. Will the city or county assign its own staff to provide income screening? Will the city or county contract with a training and referral agency? Sources of assistance for income screening and referrals are: Private Industry Councils, the State Employment Development Department, the County GAIN Program, and WIA grantees.

If the jurisdiction develops an employee training agreement with an organization implementing the Workforce Investment Act (WIA), the WIB's standards for verifying income eligibility are acceptable to the CDBG Program provided the WIA verifies the income of 100% of the job applicants referred to the business. Any agreement with the agency should specify the percentage of employees who will be participating in a WIA on-the-job training program. Please refer to Chapter 13 of the CDBG Grant Management Manual for more information on the income counted towards CDBG eligibility.

If any other type of entity will be verifying income eligibility, HUD income guidelines must be used, and documentation must be obtained from job applicants regarding the incomes of all family members. Income documentation may consist of tax returns and income inclusive of employment check stubs, Social Security benefits, AFDC benefits, unemployment benefits, pension funds, welfare payments, inheritance or investment income, etc.

The Department will use the following criteria to evaluate the jobs to be created or retained:

a. Are the number of jobs proposed within industry norms?

b. Are the pay and benefits realistic for the labor market?

c. Do the jobs require specialized skills or higher education (beyond a high school diploma) or are they available to employees with a general education (high school diploma) and general job skills?

d. Is there a signed agreement to recruit, screen and train TIG workers to fill at least 51% of the jobs?

e. Do the cash flow projections accurately reflect the labor costs associated with the new jobs?

f. Is there a satisfactory timetable for hiring included in the project milestones? Are there quarterly projections for cumulative job creation? Do the milestones indicate job creation within a reasonable period after CDBG funds are injected?

g. Is there a job tracking system that provides information about all employees: job classification, TIG status, annual hours employed, and on-the-job training status, salary, ethnicity, gender and handicapped status?

APPENDICES

APPENDIX 1: HUD INCOME ELIGIBILITY LIMITS BY COUNTY FOR 2004

Instructions:

Income limits for the "targeted income group" (80% of the county's median income) are found by looking at the "lower income" column for the relevant county and reading across by household size. Income limits for the lowest targeted income group (50% of the county's median income) are found by looking at the "very low income" column for the relevant county and reading across by household size.

Families with more than 8 persons:

Higher income limits apply to families with more than eight persons. For all income groups, the income limits for families larger than eight persons are determined as follows: for each person in excess of eight, add eight percent of the four-person income limit base to the eight-person limit, and round the answer to the nearest $50. For example, **the nine-person very low income limit for Alameda County is $92,750.** ($66,250 x .08 = $5,300; $87,450 + $5,300 = $92,750; $92,750 rounded = $92,750).

Authority: Section 50093, Health and Safety Code.
Reference: Sections 50079.5, 50093, and 50105, Health and Safety Code.

HUD 1/27/99

APPENDIX 2: SAMPLE BANK COMMITMENT LETTER

INSTRUCTIONS

A commitment letter from a private lender should include the following information.

Loan Amount
Interest Rate
Maturity/Term

Collateral:

- Deed of Trust
- U.C.C.-1 Filing
- Policy of Hazard Insurance

Other Conditions:

- Prerequisites to Disbursement
- Limitation on Draw/Salary
- Submission of Financial Statements
- Additional Borrowing
- Change of Ownership
- Sale or Transfer of Business Assets
- Contingent on CDBG award

Mr. John Smith
Smith Heating Systems, Inc.
555 3rd Avenue
Typical City, CA

Dear John:

Wells Fargo Bank, National Association ("Bank") is pleased to provide to Smith Heating Systems, Inc. ("Borrower") a proposal to extend the credit accommodation described below in the maximum principal amount of Five Hundred Thirteen Thousand Five Hundred and no/100ths Dollars ($513,500.00), on the following terms and conditions, so long as there has been no material adverse change in Borrowers financial condition, as determined by Bank:

1.	Type of Credit:	Real Estate Loan in conjunction with SBA under provisions of SBA 504 program.
2.	Principal Amount:	$513,500.00.
3.	Purpose:	Permanent financing for industrial property located at Property Lot 00, Golden Leaf Lane, Golden Leaf, CA (a separate construction loan will need to be obtained).
4.	Interest Rate:	Money Market Funds Rate + 2%, fixed on date of disbursement and re-fixed at current Money Market Funds Rate + 2% on 5-year anniversary date.
5.	Repayment:	Equal monthly payments of principal and interest based on 25-year amortization.
6.	Prepayment:	Market based prepayment penalty except on 5-year anniversary date.
7.	Maturity Date:	10 years from inception date of loan.
8.	Commitment or Loan Fee:	2% plus out-of-pocket expense (e.g., title and escrow charges).
9.	Collateral:	First Deed of Trust on property at Property Lot 00, Golden Leaf Lane, Golden Leaf, CA.
10.	Subject to:	(a) Receipt of commitment from SBA for $410,800.00

(b) Total of monthly payments on Bank and SBA loans not to exceed $11,333.00.

(c) Financing required by Borrower cannot be fully satisfied by Bank without the participation of the SBA 504 loan program.

(d) CDBG award from City of _________ in the amount of $________.

12. Contingent upon: Receipt of appraisal satisfactory to Bank.

This credit accommodation is made available subject to the terms, conditions and provisions of comprehensive loan documents to be executed by Borrower, including without limitation a loan agreement, all in form and substance satisfactory to Bank and all of which shall be executed prior to _____________________. Said loan documents shall include such representations, warranties, conditions, covenants and events of default as Bank deems appropriate, which shall be in addition to the terms and provisions stated in this letter.

This loan will fund upon Bank's normal standards and those of the SBA, but not later than ______________________, unless the Bank has further extended in writing.

Bank reserves the right to terminate this proposal at any time prior to Bank's receipt of acceptance by Borrower. This commitment expires on (date) unless executed by the Borrower. This proposal is personal to Borrower and may not be transferred.

___________________________________ __________
Signature and Title of Bank Officer Date

___________________________________ __________
Signature of Borrower Date

APPENDIX 3: SAMPLE EVIDENCE OF COMMITMENT FROM BUSINESS

SAMPLE EVIDENCE OF COMMITMENT FROM BUSINESS
(Corporate Letterhead)

January 9, 2004

City Manager
City of XXX
P.O. Box 1
XXX, CA 9XXXX

Dear City Manager:

As you are aware, the XYZ Corporation has experienced a great deal of growth over the last several years. A result of this growth is the need to expand our operation. The XYZ Corporation plans to expand by constructing a 25,000 square foot building on land purchased by the firm two years ago at the Westside Industrial Park.

The total project cost for the purchase of land and construction of the building is $1,300,000. The proposed financing for the project can be summarized as follows:

Bank Loan Funds	$ 75,000
Corporate Equity	50,000
CDBG Loan Funds	20,000
	$145,000

The equity is from two sources. The XYZ is contributing $15,000 cash and $35,000 in land equity to the project. The land equity is derived by the following:

Appraised Market Value	$ 200,000 (See Attached Appraisal)
Less Debt on Land	- 165,000
Contributed Land Equity	$ 35,000

The XYZ Corporation is committing this equity to the project and is willing to sign a legally binding commitment upon award of CDBG funds.

The project's feasibility, taking into consideration current long term financing costs, competitive investment alternatives, and near term economic conditions, is contingent upon XYZ Corporation obtaining CDBG funds. Any increase in XYZ Corporation's cash equity injection would seriously jeopardize our working capital requirements. I cannot emphasize too strongly the importance of the CDBG funds. Without these funds, we cannot proceed with the project at this time.

Sincerely,

Joe Smith
President

APPENDIX 4: CALCULATING LEVERAGE

CALCULATING LEVERAGE

Private investment used by CDBG staff to calculate the private and public leverage ratio include funds from sources to be expended <u>after</u> the date the CDBG award. The only exception is where the Department has approved an expenditure for land, buildings, or equipment made <u>in anticipation of receiving an award</u> of CDBG funds. Approval of <u>prior</u> expenditures to be considered as leverage must be requested in writing prior to the submittal of the application. With the exception of land, prior expenditures must have occurred during the prior three-month period before the filing date.

For purposes of calculating leverage the following expenditures shall be <u>included</u>.

a. Investments to develop or improve real property, such as land and building acquisition, on-site and off-site improvements, and "hard" construction and renovation costs.

b. Furniture, fixtures, and equipment.

c. "Soft" development costs, such as construction period interest and taxes, legal expenses, architectural and engineering fees, if paid to independent third parties.

d. Tenant improvements to be paid by the tenant only if the tenant has committed to a lease, supplied a firm commitment to spend funds, supplied third-party verification of cost estimates, and documented the source of financing.

e. Funding for any of the above uses originating from private loans guaranteed (not more than 90%) by the Small Business Administration or other public agencies, industrial revenue bonds, and other tax-exempt financing when the bond is secured by private collateral.

For purposes of calculating private leverage, the following shall be <u>excluded</u>:

a. Any costs incurred <u>prior</u> to CDBG award, including any contractual obligations incurred prior to award unless they are <u>contingent upon award of CDBG</u> funds and have received Department approval prior to the final filing date.

b. Investment in working capital, advertising, training, operating losses, or start-up costs.

c. Expenses paid to any individual or organization which is not an independent third party to the project.

d.	Developer fees, profit, and overhead.

e.	Direct loans and grants from any public sources.

Documentation of Private Leverage

All costs of the project should be clearly documented in the CDBG application.

- The costs of real property acquisition should be documented by an option agreement or purchase agreement (which will not close until after CDBG award).

- Construction and rehabilitation costs, including contingencies, should be documented by a recent, licensed contractor's bid.

- The cost of capital equipment and personal property acquisition, including any installation, should be documented by vendor quotes or, when appropriate, a non-binding purchase agreement.

In determining private investment in a project, the applicant should refer to the sources and uses statement submitted as a part of the financial review package. For example:

Uses	Sources			
	Total	Private Lender	Equity	CDBG
Land Acquisition	$469,000	$400,000	$5,000	$64,000
On-Sites	64,200	55,195	9,005	
Construction	903,656	776,904	126,752	
Equipment	256,294	120,616	19,678	116,000
Eligible Fees, Services	87,000	47,285	19,715	20,000
Interim Costs	106,250		106,250	
TOTAL	**$1,886,400**	**$1,400,000**	**$286,400**	**$200,000**

In this case, the private investment is $1.4 million from the private lender and $286,400 in private equity, for a total of $1,686,400.

NOTE: When the applicant requests financing in support of a project which will retain jobs which are threatened, the private equity injection need not meet the recommended 2:1 leverage ratio. The financial review should indicate that the business is contributing financially toward the project to the extent that is feasible.

In developing a project, applicants are encouraged to contact their field representative if they have questions regarding contributed private and public investment.

APPENDIX 5: SAMPLE LOAN AGREEMENT AND LOAN CLOSING INFORMATION

SAMPLE LOAN AGREEMENT

The outline of a sample loan agreement below may be used as a guide. All CDBG loans are due and payable upon sale or refinance.

Outline

I. Parties

A. Private Lender(s)
Name
Address
Phone Number

B. City or County
Address
Phone Number

C. Borrower
Address
Phone Number

II. Loan Description

The loan description will typically address several areas:

- Amount of the loan.
- Terms (length of loan, interest rate, equity position, total and targeted income group job goals, etc.).
- Collateral (including position and prior lien holders).
- Payment amount and schedule.
- Repayment policy.
- Purpose of the loan, which is to create or retain a specific number of jobs, principally for the targeted income group.

MUST INCLUDE SPECIFIC LANGUAGE THAT MAKES THE LOAN DUE AND PAYABLE UPON SALE OR REFINANCE OR CHANGE IN MAJORITY OWNERSHIP INVOLVING GUARANTORS OF LOANS.

III. <u>Conditions</u>

A. Statement of Loan Purpose:

- Use of Proceeds.
- Role of parties.
- Restrictions on fund users.
- Property information.
- Must include a non-monetary default clause that makes the loan due and payable if there is unsatisfactory job creation. This clause must state explicitly that the borrower is responsible for creating a total number of jobs and a total number of TIG jobs.

B. Other Loans/Sources of Funds:

- Name, address, phone.
- Loan amount.
- Terms and conditions.
- Collateral.
- Use of proceeds.

C. Special Terms and Conditions:

- Equal opportunity policy.
- Construction/contractor requirements (e.g., final plans and specification, insurance, federal prevailing wages (Davis-Bacon wages) bonding, etc.
- Inspection, monitoring and reporting requirements.

D. Other Conditions:

- Borrower must execute the note and loan agreement.
- Borrower must execute and file all security agreements.
- Principals/Borrowers must provide personal or corporate guarantees, if required.
- Borrower must provide title insurance, if required.
- Borrower must obtain all necessary governmental and other approvals.

IV. Representations and Warranties

The borrower must make several claims regarding its legal authority to borrow and conditions existing at the time of the loan application. This includes:

- The corporation or partnership is a duly organized entity at the time of the application.
- The borrower is authorized to borrow money (Corporate Resolution to Borrow, etc.).
- The borrower is not presently involved in any legal suits of material nature (Opinion of Counsel).
- The borrower is not in default on any other obligations at the time of loan closing.
- The borrower has filed tax returns and paid taxes accordingly as required.
- The borrower has not suffered any adverse change in its operation since applying for the loan.

V. Covenants

The business or developer must pledge to do and to prevent certain things.

A. Affirmative Covenants:

- Create or retain the number of jobs described in the application with a minimum of 51% benefit to TIG.
- Cooperate fully with job screening entity, comply with First Source Hiring Agreement.
- Pay CDBG loan punctually.
- Pay other loans punctually.
- Maintain, insure, and pay all income, withholding, property and sales taxes as well as any taxes on the property used as collateral. Insurance will include hazard, liability, workman's compensation, and flood insurance (if appropriate).
- Provide additional equity if there are cost overruns.
- Maintain its legal existence.
- Notify of any default.
- Maintain all collateral property or equipment in good condition and at original site identified in CDBG grant application.
- Allow access to premises for purposes of verifying condition of company, collateral and financial records and employment/personnel records for job creation/retention for TIG persons.

B. Negative Covenants:

- Will not encumber or sell the assets used as collateral.
- Will not change ownership composition.
- Will not change location of assets used as collateral.
- Will not change location of business.

VI. Events of Default

The loan agreement will list the conditions (events) which will constitute a default in the agreement. Events of default typically include the following:

- Non-payment of CDBG or other loans in the project.
- Incorrect representation or failure to disclose material information needed in CDBG application or financial statements.
- Default in any covenant.
- Judgments in excess of liability insurance.
- Failure to create jobs, principally for the targeted income group.

VII. Miscellaneous

The miscellaneous provisions provide for:

- Making amendments to the agreement.
- Waiving rights and notices.
- Assigning the note and security interests.

VIII. Assurances

By signing the loan agreement, the parties accept the terms and conditions under which this loan is being made.

SAMPLE LOAN AGREEMENT

1. This agreement is entered into this ______ day of ___________________________, 20__, by and between Oak Tree County, hereinafter referred to as "Lender", and ABC Systems Inc., hereinafter referred to as "Borrower", and Borrower agrees to borrow from Lender the sum of Three Hundred Thousand Dollars ($300,000) which shall be used for the purchase and installation of machinery and equipment to be located at the project site and for the use more particularly described in the attached Exhibit "A" incorporated herein by reference and for general working capital for the operation. Borrower agrees to execute a promissory note to Lender, evidencing said indebtedness, in the original principal amount of Three Hundred Thousand dollars ($300,000.00). Said promissory note shall provide for interest on the amount of the unpaid principal balance at the rate of _____ percent (__%) per annum on the funds loaned, from the time of receipt by Borrower until such time as all loan funds have been fully repaid. Commencing with the first day of the ______ (__th) month of the loan term, Borrower shall make seventy-two (72) equal monthly payments sufficient to fully repay the original principal amount of the loan plus any accrued interest. Payments shall be credited first to accrued interest and then to principal. The promissory note shall be secured as set forth in Paragraph Two (2).

2. SECURITY: (a) The promissory note will be secured by a (First, Second, Third) Deed of Trust on the real property and improvements on that certain real property described more particularly in the attached Exhibit "A" incorporated herein by reference.

(b) Borrower shall execute a Security Agreement and UCC-1 filing in a form satisfactory to Lender and Lender's counsel covering all furniture, fixtures, equipment, and inventory. Within twenty (20) days of the purchase of the furniture, fixtures, and equipment and fixtures provided for in this agreement, Borrower will furnish Lender with a complete and detailed list specifically identifying said items including serial numbers and shall cooperate fully in the filing of a new UCC-1 with said list attached. Borrower covenants not to permit any other encumbrances or liens to be placed against said items or to relocate said equipment/fixtures during the term of this loan. Said UCC-1 filing form shall be signed prior to the disbursement of any loan funds and shall be signed prior to the disbursement of any loan funds and shall be deposited with the title insurance company handling this transaction accompanied by Borrowers' written instructions to file said agreement with the Secretary of State upon submission by Borrower to it of the detailed listing of collateral within the prescribed twenty (20) day period. Borrower shall also cause all UCC-1 filings to be renewed in full during the 54th month of the loan.

(c) Personal guarantee of the loan in a form satisfactory to Lender and Lenders' counsel.

3. DUE ON SALE: The Promissory Note and Deed of Trust securing the loan shall provide that the full balance of the Promissory Note shall become immediately due and payable upon sale, transfer, assignment or lease of the real property and improvements or of Borrower's and Guarantors interest therein.

4. CONSTRUCTION OF BUILDING: Borrower agrees to build_______________________________in accordance with plans and specifications prepared by____
____dated _____________, and titled ___________________________________, as they may be amended from time to time, and approved by____acting in its official capacity of Building Inspector.

5. DISBURSEMENT OF FUNDS: Funds for the purchase of equipment, furniture, and fixtures shall be disbursed by Lender as two party checks payable to Borrower and vendor(s) only upon presentation of invoices from said vendors, evidencing materials, services, or labor provided in connection with the project approved by Lender and the State of California. Disbursements made for working capital, using the borrowed funds, by Borrower shall based on a pre-approved disbursement schedule and shall be only be for the approved uses contained in the CDBG Standard Agreement and in accordance with State of California Department of Housing and Community Development regulations.

6. ADDITIONAL FUNDING: Prior to disbursement of any of the funds, Borrower shall provide to Lender and the Department of Housing and Community Development (HCD) satisfactory evidence that Borrower has obtained additional funding as described in the CDBG Standard Agreement and in a sum determined necessary to complete the construction of the project.

7. RECORD KEEPING: Borrower will comply with all of the following conditions concerning the records of this project:

a. All records concerning the construction, including invoices, receipt and contracts will be kept in conformity with the State of California Department of Housing and Community Development regulations.

b. All records pertaining to the construction and the receipts and disbursement of loaned funds shall be retained for a period of not less than three (3) years from the completion of construction.

c. If so directed by Lender of HCD, Borrower shall deliver to Lender of HCD all records, accounts, documentation and other relevant materials pertaining to the receipt and disbursement of the loaned funds.

d. All of Borrower's records pertaining to this construction shall be accessible and available for inspection or audit by Lender or HCD, at reasonable times and upon reasonable notice for a period of three years after final disbursement of the loan funds, or completion of construction, whichever last occurs.

8. INSPECTION: Lender and HCD shall have the right to inspect any site associated with or work performed in connection with the Loan to verify that the project has been done in accordance with applicable Federal, State and Local requirements and in accordance with this agreement.

9. CDBG REQUIREMENTS: Borrower agrees to fully perform all work described in the economic development application submitted to the State of California, Department of Housing and Community Development for a Community Development Block Grant, including the provision of jobs as set forth in the Employment Plan of that application and CDBG Standard Agreement which is hereby incorporated by reference. Borrower agrees to provide quarterly reports to Lender on the number of jobs created and retained for the reporting periods and cumulatively and the number of those jobs that are held by members of the Targeted Income Group.

10. REPRESENTATION AND WARRANTIES: Borrower makes the following representations and warranties:

The total number of jobs to be created or retained is ______________________________.

The total number of targeted income group jobs to be created or retained is ________________.

a. There are no legal actions, suits, or proceedings pending or, to the knowledge of Borrower, threatened against Borrower.

b. Borrower is not in default of any obligation, bond, debenture, note or other evidence of indebtedness.

c. Borrower has filed all tax returns which are required to be filed, and has paid, or has made provision for the payment of all taxes, which are due by Borrower. No tax liability has been asserted by the IRS, or any other taxing authority, materially in excess of those already provided for, and Borrower knows of no basis for any such deficiency assessment.

d. Borrower certifies that there has been no adverse change, since the date of loan application, in the financial condition, organization, operation, business prospects, fixed properties, or personnel of the Borrower.

e. Borrower will not permit, without the prior written consent of Lender, any material change in its ownership structure, control or operation, including but not limited to, a merger or consolidation with any other person, firm or corporation; significant issuance of any shares of its capital stock; changing the nature of its business; or a substantial distribution, liquidation or other disposal of Borrower's assets to its shareholders.

11. INSURANCE: (A) Borrower agrees to maintain course of construction insurance on the work of improvement, and thereafter until payment in full of the loan, covering fire and extended coverage, including vandalism, in the amount of at least the fair market value of the improvements, and naming Lender as beneficiary and loss payee in a form acceptable to Lender and Lenders' counsel.

d. ALTA title policy with endorsements 100, 111.5 and 116 and any other endorsements Lender requires after review of the preliminary title report and copies of all exceptions to title.

12. TAXES: Borrower agrees to pay, prior to delinquency, all real property taxes and assessments against the real property and improvements except that Borrower shall not be required to pay any such tax, assessment or governmental charge, which is being contested by it in good faith and by appropriate proceedings.

13. HAZARDOUS SUBSTANCES: Subject to final review of Lenders' counsel provisions shall be included in the loan documents providing among other things that:

a. Neither Borrower nor any tenant of space in the property will generate, sell, treat, store, handle, release, dispose of or otherwise deal with hazardous substances on the property, and

b. The property is in compliance with, and Borrower will comply with, all applicable laws, regulations, ordinances, licenses, permits, rules, and building codes pertaining to hazardous substances, and

c. Borrower does not know or believe, or have reason to know or believe, that hazardous substances are now, or have been, generated, treated, stored, handled disposed of, released or otherwise located on the property.

d. the Borrower shall indemnify and hold Lender harmless from all liability, claims, penalties, fines, losses, damages and expenses of any kind, including, without limitation, cleanup costs and reasonable attorneys fees, incurred by Lender as a result of Borrower's breach of the provisions of the Deed of Trust, as a result of Borrower's breach of warranty regarding hazardous substances, or as a result of the presence of hazardous substances on the property. The Indemnification Agreement is to be prepared by attorneys for Lender.

14. DEFAULT: At the option of the Lender the occurrence of any of the following events shall constitute a default.

a. Borrower shall fail to make any payment of principal or interest or any other amounts due Lender hereunder in connection with the issuance or administration of the loan proceeds when due and such failure shall continue for five days after notice thereof from Lender.

b. Borrower shall (a) fail to make any payment of any Indebtedness when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure shall continue after the applicable grace or cure period, if any, specified in the agreement or instrument relating to such Indebtedness or (b) otherwise materially breach any agreement or instrument relating to any Indebtedness, where the effect of such material breach is to accelerate, or to permit the acceleration of, the maturity of any Indebtedness.

c. Any material representation or material warranty made by Borrower herein in the First Deed of Trust, the Second Deed of Trust, Third Deed of Trust, Security Agreement, or Employment Plan is breached or is false or misleading in any material respect, or any schedule, certificate, financial statement, report, notice or other writing furnished by Borrower to Lender is false or misleading in any material respect on the date as of which the facts therein set forth are stated or certified.

d. Borrower shall fail to perform any covenant, condition, or agreement set forth herein such as the creation or retention of ___jobs for the TIG, or in any other Loan Document, and such failure shall continue for a period of 30 days after notice thereof (which notice shall specify in reasonable detail the nature of such failure) from Lender.

e. Borrower voluntarily suspends the transaction of business or there is an attachment, execution or other judicial seizure of any portion of Borrower's assets and such seizure is not discharged or stayed within 60 days.

f. Borrower becomes insolvent or unable to pay its debts as they mature or makes an assignment for the benefit of creditors, or there shall occur a material adverse change in the financial condition of Borrower.

g. Borrower files or there is filed against Borrower a petition to have Borrower adjudicated a bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy unless, in the case of a petition filed against Borrower, the same is dismissed or stayed within 60 days.

h. Borrower applies for or consents to the appointment of a receiver, trustee or conservator for any portion of Borrower's property, or such appointment is made without Borrower's consent and is not vacated within 30 day.

i. Borrower fails or refuses to perform all of its obligations within the terms of the First Source Hiring Agreement.

In the event of default, Lender may immediately call the note due and payable and enforce its remedies under the law.

j. Borrower voluntarily changes location of business operation, affecting loan security or jobs for local employees.

15. OTHER DOCUMENTS: Lender may require and Borrower agrees to execute such other documents as may be required by Lender in its sole discretion in order to comply with applicable State and federal regulations governing the loan proceeds and prudent lending practices.

16. COLLECTION AGENT: Borrower hereby appoints Lender as its agent to appoint a collection agent to provide loan servicing in accordance with this agreement and other loan documents. Lender may remove or replace the loan agent in its sole discretion. Lender shall provide or cause to be provided notice to Borrower of a change in the collection agent.

17. WAIVER: No failure or delay on the part of the Lender in exercising any right, power, or remedy hereunder shall operate as a waiver thereof.

18. ATTORNEY'S FEES: If any party to this agreement becomes a party to any litigation concerning this loan or the security for this loan, by reason of any act or omission of any other party of its' authorized representatives, and not by any act or omission of the party that becomes a party to that litigation or any act or omission of its authorized representatives, the part that causes the other party to become involved in the litigation shall be liable to that party for reasonable attorneys' fees and court costs incurred by it in the litigation.

If either party commences an action against the other party arising out of or in connection with this loan, the prevailing party shall be entitled to have and recover from the losing party reasonable attorney's fees and costs of suit.

19. HEIRS, SUCCESSORS AND ASSIGNS: This agreement shall be binding upon, and inure to the benefit of the heirs, successors and assigns of the parties to this agreement.

20. AMENDMENTS: Any amendments or modifications to this agreement must be in writing and signed by both parties.

ABC Systems, Inc.	Oak Tree County
By: ___________________________________	By:____________________
Bob Business Person President	County Administrative Officer

APPENDIX 6: LOAN FILE OUTLINE AND LOAN FILE DOCUMENTS

LOAN FILE OUTLINE

Two separate loan files must be maintained. There should be an original documents file, a legal file, which holds all of the original loan documentation, and a credit file which has the day-to-day administrative records of the loan. The legal file should be secured in a fireproof safe. At a minimum the legal file should include:

1. Promissory Note
2. Loan Agreement, including First Source Hiring Agreement
3. Deed of Trust
4. General Security Agreement and UCC-1 Filings
5. Personal Guaranty
6. Corporate Guaranty
7. Subordination Agreement
8. Life Insurance Policy and Assignment
9. Hazard Insurance Policy and Assignment
10. General Resolution
11. Certificate of Secretary
12. Opinion of Counsel
13. Intercreditor Agreement

LOAN FILE DOCUMENTS

1. Note

The note is usually a one-page document, the instrument which obligates the borrower to the debt. It details the amount of the loan, the rate of interest and the repayment terms as well as the remedies of the lender with respect to the collateral and guarantees securing the loan in the event of default.

2. Loan Agreement

The loan agreement is created to supplement the note. It details the specific conditions of the lending such as the disbursements, payment obligations, covenants outlining specific TIG hiring requirements, financial disclosure requirements, a description of the collateral and guarantees securing the loan, other special conditions of the loan, such as any regulatory obligations "e.g., meeting Davis-Bacon Wage Guidelines", and also describes the remedies you, as the lender, have with respect to defaults in payments and violations of any of the loan covenants.

3. Deed of Trust

If a loan is secured by real property, a Deed of Trust mortgage instrument detailing the specifics of the property must be prepared and recorded in the county in which the property is located. This prevents the resale of the property without your notification. If the Deed of Trust is not properly prepared and recorded your lien may become invalid, thereby losing the collateral which secures your loan.

4. General Security Agreement and UCC Filings

A General Security Agreement and UCC filing is made on all other collateral securing the loan in order to protect the lender from a claim against the collateral by another party. The General Security Agreement obligates the borrower to the lender. The UCC filing provides notice to all creditors that the borrower has an obligation to you, which is secured by collateral on which you have first claim. You must complete the UCC filing in your locality, county and state simultaneously in order for the filing to be effective. The UCC-1 filing must be renewed during the 54th month if the term of the loan exceeds 60 months.

5. Personal Guarantees

The endorser of a personal guarantee becomes personally liable for the obligation. Remember that often the legal borrower is usually a corporation, not the principals of the company, and unless you obtain a personal guarantee you have no recourse against the principals.

6. Corporate Guarantees

Corporate guarantees are obtained when you require the endorsement of a corporation other than the borrower as a condition of the loan. Guarantees should be accompanied by Certificate of Secretary (see No. 11) from the corporate guarantor.

7. Subordination Agreement

The Subordination Agreement is required when, as a condition of your loan, you demand that the repayment of a previously existing debt be subordinate to the payment of your loan. If you do not want any payment, principal and interest, to be paid on this loan, you must specify it in the agreement otherwise you might find a deferral of principal but not of interest payment.

8. Life Insurance Policy and Assignment

If you require a life insurance policy on any of the principals of the company as collateral on your loan, it must be accompanied by an assignment. An assignment is an agreement between you and the borrower which specifies the type of life insurance coverage required to secure the loan and names you as beneficiary. The assignment form is usually provided by the insurance company issuing the policy and who must record the assignment. Once a policy is assigned the insurance company will send you notices of lapses in premium payments.

9. Hazard Insurance Policy and Assignment

The same procedure for life insurance policy is followed on all fire, theft and flood insurance policies which covers the collateral securing your loan.

10. General Resolution

A general Resolution describes who is empowered to borrow on behalf of the corporation.

11. Certificate of Secretary

A Certificate of Secretary affirms that the corporation has agreed to the loan.

12. Opinion of Counsel

The Opinion of Counsel verifies that the company is a legal entity empowered to borrow, and that there are no legal actions or suits pending against the company.

13. Intercreditor Agreement

An Intercreditor Agreement is obtained when there are two or more lenders with claims against the same collateral as in the case of a senior and second mortgage lender. This agreement details the obligations of the two to each other with respect to attempts to liquidate the asset securing the loan without the other's consent.

In any loan closing you should have your own legal counsel representing your interest as lender and being well versed in the legal lending requirements in your state. Once the loan is closed it is your responsibility to protect the original closing documents from any destruction or mutilation which could jeopardize your ability to liquidate your collateral or move against a guarantee should it become necessary. It is improper to store the original documents in the credit file which is used in the everyday administration of the loan.

The credit file should be organized in a chronological manner with separate tabs for financial reports and correspondence, credit checks, personal financial reports and other recordkeeping functions.

MANAGEMENT INFORMATION SYSTEM (MIS)

Good credit administration demands that you develop a good reporting system that gives you information on the payment status of your loans and monitors the quality of your portfolio.

A good reporting system can help you set achievable goals for the growth of your portfolio, the quality of your loans, and it can help you improve the collection of your delinquencies and help you manage workloads. The reporting system becomes an effective management tool if, at a minimum, it provides you with the information provided in the sample reports which follow. These reports should be produced on a monthly basis, reviewed and then compared to the previous month's activity. They provide a basic format and should be modified to suit your loan program's particular needs.

- Fund Balance Report

  Provides a monthly summary of beginning fund balance, the principal and interest recaptured during the month, disbursements made during the month, funds committed but not yet disbursed, to net out to the available fund balance at month end.

- Portfolio Summary Report

  Provides a summary of the total loans in process, loans authorized/committed to but not disbursed, the current loans outstanding and the loan losses.

- Current Portfolio Summary

  Provides a listing of all outstanding loans, the latest loan balance, last payment date, identifies if a loan is current or delinquent, the date the annual review is due, the loan classification and the loan officer responsible for the loan. It also provides totals for number of loans outstanding, amount originally booked and the outstanding balance.

- Undisbursed Commitments

  Provides a listing of all loans that have been approved but undisbursed as of the date of the report.

- In Process Deals

  Provides a listing of the proposals that are in house and in the developmental stage.

- Loss Portfolio Report

  Provides a list of all loans that have been classified as uncollectible.

- Delinquent Loan Summary

  Highlights all loans in the current summary that are delinquent in order to focus management attention on the problem.

- Classified Loan Summary

  Sorts the current portfolio summary by classified loan status to provide a picture of the quality of the portfolio.

- Loan Officer Summary

  Sorts the current portfolio, the authorized but undisbursed and the in process deals by loan officer. This allows management work flows and monitor performance more effectively.

- Loan History

  An individual loan history of each loan is maintained which details the original amortization schedule and the current activity on the loan, including latest loan payment, the portion of the payment that went to interest and principal and the remaining outstanding principal balance as of the close of the report.

- Tickler File

  Provides a listing of loans in the current portfolio and the deadlines for such information as due dates of receipt of financial statements, renewal of UCC-1 filings, review date, insurance premium payments which borrower must make to ensure your collateral coverage. This file can be sorted by month to highlight those times in chronological order.

APPENDIX 7: MARKET ANALYSIS OUTLINE

MARKET ANALYSIS OUTLINE

a. Product Definition

- What is the nature of the business?
- What will be the product of the business?

b. Trade Area

- What are the primary and secondary areas?
- What are the trade area demographics?

c. Sales Volume in the Market

- What sales volume does the trade area generate for similar products?
- How much sales volume growth exists?
- Is sales volume growth supported by industry trends?

d. Competition

- What businesses provide similar products in the trade area?
- Where are these businesses located?
- What share of the market does each control?
- What competitive advantages or disadvantages do these businesses have (location, price, quality, etc.)?
- For job creation projects, summarize the expected net job increase/decrease

e. Market Capture Strategy

- What competitive advantages does/will the business have?
- Do the keys to success include location, prices, quality, selection, merchandising, distribution, service, etc.?
- Which of the above factors represents the most significant competitive advantage?
- Will the business attract new customers or draw customers to other businesses?
- What share of the market will the business capture?
- How does it intend to capture this share?

f. Estimated Business Sales

- What is the projected sales volume in the first year of operation or expansion?
- What evidence supports these sales estimates?

g. Management Capacity

- What is the experience of the principals and or managers of this business?

APPENDIX 8: DEVELOPMENT PROJECT--SAMPLE LEASE CONDITIONS FOR TIG HIRES

DEVELOPMENT PROJECT--
SAMPLE LEASE CONDITIONS
FOR TIG HIRES

Miscellaneous:

1. It is hereby understood and agreed by Tenant that Landlord has made no warranty or representation as to the present condition of, or suitability of the Premises for Tenant's intended use or uses.

2. Tenant understands that Landlord has entered into a financing agreement with the ______________________ and the State of California to construct the demised premises. A condition of that financing is the provision of employment for low/moderate income residents. In order to attain these goals and the goals of the project in general, Tenant hereby agrees as follows:

a. Tenant shall provide financial information including, but not limited to a balance sheet and profit/loss statement, prepared in accordance with generally accepted accounting principles, every six months during the term of this lease; the first such reporting shall be due not less than eight months following the commencement of the Lease Term. If Tenant is in default of its obligation to pay rent, Tenant shall make books, records and other financial information available, to Landlord, for review during business hours.

b. Tenant shall provide, at the beginning of the Term, a statement of current employment and projected employment figures for the Term of this Lease. Thereafter, on a quarterly basis, Tenant shall provide to Landlord's designated agent a written report of its progress in meeting employment projections.

c. Tenant will execute a First Source Hiring Agreement satisfactory to the __________________________. This agreement shall provide that Tenant will use its best efforts to recruit and utilize employee referrals meeting the Targeted Income Group (TIG) standards. A copy of the First Source Hiring Agreement is attached as Addendum 2, and is a part of this Lease by reference.

d. Tenant shall comply with all provisions hereof and ordinances and other laws against unlawful discrimination on account of race, creed, sex, age disability, or color. This Lease is subject to Title VI of the Civil Rights Act of 1964 (Public Law 88-352) and the rules and regulations issued pursuant thereto, and the Tenant shall comply with Executive Order No. 11246, entitled, "Equal Employment Opportunity", as supplement in Department of Labor Regulations(4CRF, Part 60).

e. Tenant shall use its best efforts to locate any future corporate offices and/or related office or manufacturing or warehouse facilities in the same structure or structures within the Premises. Upon graduation from the incubator facility, Tenant will, if adequate space is available, locate within the County limits of ______________________. Landlord, through its agent _________________ City/County Development Corporation, will assist in new site location at no charge to Tenant.

f. Tenant understands that this Lease, the demised premises and the additional services provided are designed to provide space for emerging businesses. Once the business has reach a stage where such services are no longer required, or growth dictates a need for more space, it is expected that the business will relocate to another facility within the County/City. Tenant and Landlord will review the progress of the business annually and mutually agree upon a "graduation" date from the Incubator.

g. Tenant agrees that specific rules regarding outside area maintenance, employee parking, and traffic control may be promulgated by Landlord for the benefit of all Tenants. Tenant further agrees to abide by these rules.

h. In the event Tenant changes the nature of the business. For example, from a sole proprietorship to a corporation, then the existing Lease shall be terminated upon a written notice from Tenant and a new lease made in the name of the new business entity. Such lease shall be executed based substantially on the terms and conditions contained herein.

Note: Grantees are advised of their potential liability regarding job creation and benefit to the TIG. Grantees may want to develop specific remedies applicable to the tenant where there are instances of non-compliance or non-conformance.